



NatWest  
Group

NatWest Group plc  
Climate-related  
Disclosures Report

# Thrive Together



NatWest Group champions potential, helping people, families and businesses to thrive.

We are the UK's leading business bank, and we serve 19 million customers across every region of the UK.

We recognise that climate change is a critical global issue and taking the necessary actions to address climate change has the potential to create jobs, transform communities and touch every family in the country.

To tackle climate change, we must think long term and act quickly, working in partnership with others so that we can...

# Thrive Together



Our 2021 reporting suite brings together NatWest Group’s financial, non-financial and risk performance for the year. The reports are designed primarily to meet the expectations of our investors, including holders of bonds issued under our Green, Social and Sustainability framework, as well as regulators and our wider stakeholders, including customers, colleagues and society more broadly. The main reports within this suite and their focus are detailed below and are available at [natwestgroup.com](https://natwestgroup.com):

**Company Announcement and Financial Supplement**

Our latest company information including our financial performance for the year with a focus on key metrics and measurement.

**Climate-related Disclosures Report**

Details our progress in 2021 on our climate ambitions including an overview of our approach to climate-related governance, strategy (including scenario analysis), risk management, metrics and targets.

**ESG Supplement**

Provides an overview of our purpose in action and key environmental, social and governance matters including progress in 2021.

**Pillar 3 Report**

Focuses on our regulatory reporting requirements and provides an explanation of our risk profile, including our capital adequacy, risk appetite and risk management.

**NatWest Group Climate Ambition**

**Our purpose-led strategy**

Climate is one of three areas of focus in our purpose-led strategy, alongside Enterprise and Learning.

**Climate**

A leading bank in the UK helping to address the climate challenge.

**Enterprise**

We are committed to removing barriers to enterprise and providing businesses in the UK with the support they need to grow.

**Learning**

We are helping people to take control of their finances, to make the most of their money, safely and securely – now and in the future.

As signatories of the UN Principles for Responsible Banking, we are committed to an ongoing process to align our strategy with the 2015 Paris Agreement and the UN Sustainable Development Goals (SDGs).



**Contents**

<b>1</b>	<b>Introduction</b>	<b>2</b>
<b>2</b>	<b>Governance</b>	<b>12</b>
<b>3</b>	<b>Strategy</b>	<b>18</b>
<b>4</b>	<b>Risk Management</b>	<b>47</b>
<b>5</b>	<b>Metrics and Targets</b>	<b>57</b>
<b>6</b>	<b>Glossary</b>	<b>94</b>

**Assurance approach**

NatWest Group plc appointed Ernst & Young LLP (EY) to provide independent assurance over certain sustainability metrics, indicated with (\*) in this report. The assurance engagement was planned and performed in accordance with the International Standard on Assurance Engagements (UK) 3000 (July 2020), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (“ISAE (UK) 3000 (July 2020)”). An assurance report was issued and is available at [natwestgroup.com](https://natwestgroup.com). This report includes further details on the scope, respective responsibilities, work performed, limitations and conclusion





## 1

# Introduction

- 1.1 NatWest Group climate ambition
- 1.2 A leading bank in the UK helping to address the climate challenge
- 1.3 Driving our climate ambition
- 1.4 COP26: Leading by example on a global stage
- 1.5 Climate-related disclosures overview

## Note on Materiality

In general, assessing materiality requires thoughtful consideration not only of any applicable materiality standards, but also of our purpose in assessing materiality and in communicating to our stakeholders. Our public disclosures, including our climate-related and voluntary ESG disclosures, include a range of topics that we believe are relevant to our businesses and that are of interest to investors and other stakeholders. For the purposes of complying with our annual, periodic and interim disclosure obligations in the United Kingdom and the United States we apply a materiality standard based on the applicable rules and regulations governing public reporting in the United Kingdom and the United States. However, in our climate-related and voluntary ESG disclosures, we have adapted our approach to materiality based on both the subject matter and purpose of the disclosures. In particular, our approach to these disclosures may sometimes have regard to broader understandings of materiality based on certain external frameworks and reporting guidelines that take into consideration a wider range of factors relevant to climate and ESG disclosures, including the views of our key stakeholders and our ambition to be a leading bank in the UK helping to address the climate challenge.

This report uses longer time frames to assess potential impacts than those time frames customarily used in certain of our other disclosures, including our annual, periodic and interim financial reports submitted to the London Stock Exchange ("LSE") in the United Kingdom and to the Securities and Exchange Commission ("SEC") in the United States. This layered approach to materiality means that this report, and many of our climate-related disclosures, including with respect to climate-related risks and opportunities, and voluntary climate-related disclosures includes certain information that we have not included in our LSE and SEC filings for which we use a different approach to materiality. Our approach to materiality in this report and voluntary climate-related disclosures also means that statements made in this report and in our other voluntary disclosures use a greater number and level of assumptions and estimates than many of our LSE and SEC filings. These assumptions and estimates are subject to change, and, when coupled with the longer time frames used, make any assessment of materiality inherently uncertain. In addition, our climate risk capabilities and net-zero transition strategy and plan remain under development, and the data underlying these and market practice in relation to such disclosures will evolve over time. As a result, we expect that certain disclosures made in this report and our voluntary climate-related disclosures are likely to be amended, updated, recalculated and restated in the future.



1.1

# NatWest Group climate ambition

Net zero<sup>(1)</sup>  
by 2050

**-50%**

At least halve the climate impact of our financing activity by 2030

**£100bn**

Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025

**50%**

of our UK mortgage customers' homes at or above EPC C rating by 2030

**Full phase out of coal by 1 January 2030<sup>(2)</sup>**

**-50%**

reduce our direct<sup>(3)</sup> own operations carbon footprint by 2025

## Notes:

1. Refer to section 1.2, for further detail on our net-zero ambitions.
2. Refer to section 3.5.2 for further detail on outcomes.
3. Against a 2019 baseline. Direct own operations is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It excludes upstream and downstream emissions from our value chain.
4. Having surpassed our previous 2020-21 £20 billion target during H1 2021, NatWest Group announced an ambition to provide £100 billion Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.
5. Percentage of £110.3 billion UK Retail Banking mortgages where EPC data is available. 2020 comparative for England and Wales mortgages only.
6. Retail Banking RBS, NatWest and Ulster Bank Northern Ireland mobile apps.
7. Retail Banking Green Mortgage products relate only to mortgages for energy efficient homes (EPC A or B rated) and are aligned to the World Green Building Council definition of green mortgages.

(\*) Within scope of EY assurance. Refer to page 1.

## 2021 progress highlights

**52%**

of gross lending and investment balances at 31 December 2019 estimated for financed emissions. A further eight high carbon emitting sectors estimated

2020: 45% (four sectors)

**£17.5bn<sup>(\*)</sup>**

Climate and Sustainable Funding and Financing completed, including £8.1bn contribution towards our £100bn target<sup>(4)</sup>

2020: £12bn

**38%<sup>(\*)</sup>**

of Retail Banking mortgages are at or above EPC rating C<sup>(5)</sup>

2020: 36%

**Credible transition plan assessments**

completed for oil and gas majors and in scope coal customers<sup>(2)</sup>

**-46%**

reduction in our direct<sup>(3)</sup> own operations carbon footprint

**Carbon tracking**

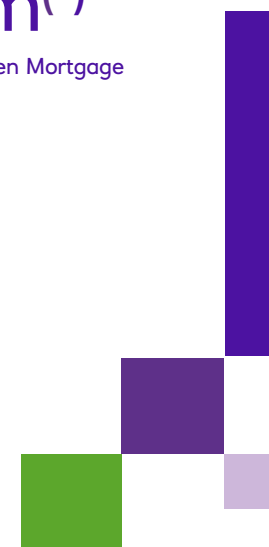
feature launched in our Retail Banking mobile app<sup>(6)</sup> – in collaboration with CoGo

**COP26**

Principal partner for the 26th UN Climate Change Conference of the Parties (COP26)

**£728m<sup>(\*)</sup>**

Retail Banking Green Mortgage completions<sup>(7)</sup>



1.2

# A leading bank in the UK helping to address the climate challenge

## Net zero by 2050

We have an ambition to achieve net zero by 2050, this includes:

**Financed emissions:** Greenhouse gas emissions from loans and investments activity, attributable to NatWest Group.

**Assets under management:** Greenhouse gas emissions associated with our discretionarily managed assets.

**Our operational value chain:** Greenhouse gas emissions related to the upstream and downstream activities associated with our operations.

### Accelerating the speed of transition to a net-zero economy

We have an ambition to support our UK mortgage customers to increase their residential energy efficiency and incentivise purchasing of the most energy efficient homes, with an ambition that 50% of our mortgage portfolio has an EPC rating of C or above by 2030.

We plan to collaborate cross industry and create products and services to enable customers to track their carbon impact.

We plan to reduce the carbon intensity of our funds and discretionary portfolios by 50% by 2030 and to achieve net zero on discretionarily managed assets by 2050.

### Helping to end the most harmful activity

We plan to phase out of coal for UK and non-UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full global phase out by 1 January 2030.

### Championing climate solutions

We have a target to provide £100 billion Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.

### Embedding climate into our culture and decision-making

Each year, we plan to include targets for executive remuneration that reflect our latest climate ambitions.

We have an ambition to at least halve the climate impact of our financing activity by 2030 and align with the 2015 Paris Agreement. To do this, we plan to quantify our climate impact and set sector-specific targets by the end of 2022.

We plan to continue the integration of the financial and non-financial risks arising from climate change into our enterprise wide risk management framework (EWRMF).

### Net-zero emissions for our operational value chain

We have a target to reduce our direct own operations carbon footprint by 50% by 2025, against a 2019 baseline.

We plan to reduce the carbon footprint for our wider operational value chain by 50%, against a 2019 baseline, by 2030 and achieve net zero by 2050.

We plan to use only renewable electricity in our direct own global operations by 2025 (RE100) and improve our energy productivity 40% by 2025 against a 2015 baseline (EP100).

We plan to install electric vehicle charging infrastructure in 15% of spaces across our UK portfolio by 2030 and upgrade our fleet of 300 vehicles to electric by 2025 (EV100).





# Driving our climate ambition

We champion potential; breaking down barriers and building financial confidence so the 19 million people, families and businesses we serve in communities up and down the country can rebuild and thrive.

**Alison Rose**  
Group Chief Executive Officer

We know the financial sector is a key enabler in the drive towards net-zero emissions, so we invited our customers to COP26 and held events that explained the huge opportunity that climate change can bring to businesses. We formed alliances to help customers 'green' their homes, and we set up collaborations with organisations such as CoGo to help our customers understand their carbon footprint. In this sense, we saw the conference as an incredible chance to showcase and develop the practical support we can offer our retail and business customers to lower their emissions.

## The climate opportunity

When I became CEO of NatWest Group in November 2019, I made climate one of our top business priorities. As one of the UK's biggest banks – and indeed the biggest for business – we have both the ability and the responsibility to take a major role in the fight against climate change.

There is a clear societal duty here, but also an obvious commercial imperative in helping our 19 million customers to take advantage of the many opportunities that moving to net zero brings. Importantly, I believe this is not only good for the planet, but good for business too.

Our 'Springboard to Sustainable Recovery' report clearly highlights this. The report shows that small and medium-sized enterprises (SMEs) can deliver a significant amount of the UK's abatement targets, if they get the right support. And this, we believe, is a huge opportunity for SMEs.

Demand for the financing to make this happen is already significant. In 2020, we set out to provide £20 billion of Climate and Sustainable Funding and Financing over two years. I am delighted that we met this initial target in under 18 months, so in October 2021 we committed to an ambitious new goal of providing an additional £100 billion of Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.

For us, this really is positive lending. Not only are we aligning capital in a more sustainable way, but we also know that it makes good business sense. It's why we see climate as an area of genuine strategic growth for our business.

## Being a COP26 principal partner

Against this backdrop, it was a huge honour this year for NatWest Group to be a principal partner for COP26. We wanted to achieve two things through our participation at the conference: to demonstrate how we can support our customers; and to ensure that we will play a leading role in the global coalition of financial services organisations tackling climate change.

With regard to collaborative action, we signed up to the UK Government's joint declaration on accelerating the transition to 100% zero-emission vehicles, as well as announcing that we will be one of 27 new members of the Powering Past Coal Alliance to accelerate the global transition from coal – which builds on our existing enhanced coal-lending policy.

## Putting our own house in order

In 2021, we became a founding member of the Net Zero Banking Alliance and joined the new coalition of the Glasgow Financial Alliance for Net Zero (GFANZ), which currently includes over 450 financial firms across 45 countries focused on broadening, deepening and raising net-zero ambitions

# Helping people, families and businesses thrive

“We continued to develop and enhance capabilities to measure our carbon footprint in relation to our own operational footprint and – more importantly – our financed emissions”

across the financial system. It means that NatWest Group is now a prominent presence in the key forums for sustainable financing, able to use its position to positively influence market-wide change in the UK and globally.

Measuring and assessing climate-related risk is key for us to deliver on our ambitions: in 2021 we continued to develop and enhance capabilities to measure our carbon footprint in relation to our own operational footprint and – more importantly – our financed emissions.

We also further integrated climate into our risk management and developed our scenario analysis capabilities to help us better understand our own climate-related risks and opportunities. This has been strengthened through our participation in

the Bank of England’s Climate Biennial Exploratory Scenario (CBES) exercise. Insights from the climate scenarios can be translated into tangible action that will enable NatWest Group and its customers to mitigate climate-related risks and take advantage of the opportunities that the transition to net zero will create.

In 2021, we also classified ‘Biodiversity and Nature Loss’ as a formal emerging risk for NatWest Group. It is critical for NatWest Group and our customers to work towards becoming ‘nature positive’ by reducing negative impacts and increasing the restoration of natural capital. We are at the start of this journey, and in 2022 we will work to better understand nature-related risks and opportunities including in NatWest Markets NV as part of the European Banking Authority’s pillar 3 disclosures on ESG risks including environmental assessment.

## Building powerful partnerships

Importantly, we know combating climate change must be a collaborative and wide-reaching effort. As such, in 2021 we continued to work with other organisations to combine and amplify our impact.

For instance, with fintech company CoGo we introduced a carbon-tracking feature in our mobile banking app to help customers reduce the climate impact of their spending. We have also been developing similar tools for our business customers. In association

with British Gas, Worcester Bosch and Shelter, we established the Sustainable Homes and Buildings Coalition to improve the energy efficiency of buildings in the UK and to address the key blockers to meeting net zero in the UK built environment. And we are helping colleagues and customers to move to electric vehicles through a collaboration with Octopus Energy.

We have also joined forces with other financial firms to launch Carbonplace, a voluntary carbon marketplace. The pilot – a global first – will initially see NatWest Group and three other banks team up to create a thriving and transparent global marketplace for carbon offsets, with clear and consistent pricing and standards that more banks are expected to be part of later.

## Industry-leading initiatives

Significantly, these industry-leading initiatives occur right across NatWest Group. For instance, this year, Coutts has joined the Net Zero Asset Managers initiative and has committed to achieving net-zero investments by 2050. Coutts also had the proud distinction of achieving B Corp status in 2021.

Elsewhere, NatWest Markets remains a leading underwriter for green, social and sustainability (GSS) bonds issued by UK corporates and sterling-denominated GSS bonds across all sectors.

## Committed to disclosure

Naturally, we want our climate-change actions and outcomes to be measured against our ambitions and aligned with the 2015 Paris Agreement. Which is why we have not only committed to our progress being validated by credible third parties, but we also take compliance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations very seriously. We acknowledge as well, the evolving and often imperfect nature of climate data currently available. Improvements in the consistency and standardisation of climate metrics are undoubtedly key to the progression of the integration of climate into our decision-making processes. Although to a large extent this is dependent on broader industry comparability, we are committed to making our methodologies as robust and transparent as possible. To this end, since our inaugural standalone report in 2021, I am delighted in how we have progressed our assessment of climate-related risks and opportunities, enhancing our scenario planning, governance and risk management processes, and developing metrics and targets. All of which is captured in this document.

**Alison Rose**  
Group Chief Executive Officer





PRINCIPAL PARTNER  
**UN CLIMATE  
CHANGE  
CONFERENCE  
UK 2021**

IN PARTNERSHIP WITH ITALY

1.4

# COP26: Leading by example on a global stage



The UK hosted the 26th UN Climate Change Conference of the Parties in Glasgow on 31 October – 13 November 2021, bringing the world together to seek solutions to the climate challenges we face.

NatWest Group was proud to be a COP26 principal partner, emphasising the role the finance industry has to play in tackling those challenges and supporting our customers in the transition to net zero. While COP26 achieved much – maintaining the Paris Agreement ambition to limit warming to well below 2°C, preferably to 1.5°C, specific commitments on reducing coal use and increased financial aid for developing countries, it is clear more needs to be done. That is why we remain passionate about our role in supporting and accelerating the transition to net zero and fostering ever greater cooperation between governments, businesses, regulators and society.

## Harnessing a unique opportunity

**Engagement:** we used our sponsorship of COP26 to build partnerships, relationships and lay the foundations for a strong legacy.

**Finance:** we helped demonstrate that the finance sector is a key enabler to tackling climate change and demonstrated how NatWest Group is playing a leading role.

**Enterprise:** we showed how we are supporting our customers' transition to net zero by providing enterprise funding access, raising awareness of opportunities and supporting the development of skills, capabilities and knowledge.

**Customers:** we showcased some of our customers already making a difference, giving them a global platform to support future growth. During the conference 12 SME customers were exhibited on our stand in the COP26 Green Zone.

**Colleagues:** we harnessed COP26 opportunities to engage and further educate colleagues.

## A platform for powerful partnerships

Leading up to and during COP26, NatWest Group announced a number of new collaborations designed to help address the climate challenge. Two key initiatives attracted considerable attention:

1. Our target to provide £100 billion of Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.
2. Our support for the Powering Past Coal Alliance, in particular our newly announced commitment to stop lending to UK and non-UK customers who have UK coal production, coal fired generation and coal-related infrastructure by October 2024 with a full phase out of coal by 1 January 2030.

We also focused heavily on the role of businesses in supporting the drive toward net zero. We hosted HRH The Prince of Wales' Sustainable Markets Initiative Terra Carta Action Forum, which brought together partners, customers and charity leaders to examine the barriers that tackling climate change bring to SMEs.

We hosted a virtual event with CEO Alison Rose and senior leaders from other COP26 principal partners, alongside the UK Government's Net Zero Business Champion, to discuss the role that businesses can play in helping to tackle climate change. We also helped promote business innovation in addressing climate change through our support of the UK Government's Business Climate Hub's 'Heroes of Net Zero' competition and awarded £200,000 to climate start-ups through Scottish EDGE funding.



# 1.5 Climate-related disclosures overview

NatWest Group publicly committed to support the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures recommendations in 2017. Our first stand-alone 2020 Climate-related Disclosures Report provided updates on climate as a key focus area for NatWest Group. During 2021, we have continued to progress our work and the tables on the following pages summarise the content of the 2021 Climate-related Disclosures Report. Refer to page 64 of the NatWest Group plc Annual report and Accounts for our statement on consistency with the TCFD recommendations.

	2021 progress	Future priorities	Section
<b>Governance</b>			
<b>NatWest Group’s governance around climate-related risks and opportunities</b>			
<b>The Board’s oversight of climate-related risks and opportunities</b>	<ul style="list-style-type: none"> <li>– Board monitoring and oversight of climate-related risks and opportunities is supported by clear roles and responsibilities for the Board and Board Committees, as well as regular management reporting on climate strategy, ambition, and risk management activities.</li> <li>– Key Board level decisions and areas of discussion and/or challenge related to climate strategy, climate scenario analysis, risk appetite, reporting controls and embedding climate measures within remuneration and performance structures.</li> <li>– The Boards of NatWest Group’s principal subsidiaries exercised oversight of key climate-related risks and opportunities through regular risk reporting and management updates.</li> </ul>	<ul style="list-style-type: none"> <li>– Continue to oversee progress against NatWest Group’s climate ambitions and targets, particularly long term reduction in financed emissions and development of transition plans to support this.</li> <li>– Continue to build knowledge at Board level and to support the directors in addressing and overseeing climate-related risks within NatWest Group’s overall business strategy and risk appetite.</li> </ul>	2.1, 2.2.
<b>Management’s role in assessing and managing climate-related risks and opportunities</b>	<ul style="list-style-type: none"> <li>– NatWest Group CEO and Chief Risk Officer jointly share accountability under the Senior Managers and Certification Regime for identifying and managing the financial risk of climate change.</li> <li>– This responsibility is delegated among the Executive and senior leadership teams. Cross-bank climate-related groups, advisory teams and committee structures support with collaboration, escalation, and additional controls.</li> <li>– The Climate Change Executive Steering Group acts as the primary management forum responsible for overseeing direction and progress on NatWest Group’s climate-related commitments.</li> </ul>	<ul style="list-style-type: none"> <li>– Further embed operating models and business processes to support the management of climate-related risks and opportunities, including coordination of actions to support further development and execution of climate transition plans.</li> <li>– Continue to maintain a One Bank approach to climate strategy development and transition plans, including at subsidiary levels.</li> </ul>	2.1, 2.3.





1.5

# Climate-related disclosures overview continued

	2021 progress	Future priorities	Section
	<b>Strategy</b>		
	<b>The actual and potential impacts of climate-related risks and opportunities on NatWest Group’s businesses, strategy and financial planning</b>		
<b>Climate-related risks and opportunities identified over the short, medium and long term</b>	<ul style="list-style-type: none"> <li>NatWest Group’s climate ambition, announced in February 2020, recognises various short, medium and long-term climate-related risks and opportunities to embed climate in our business and culture, as well as support our customers in their transition to net zero.</li> </ul>	<ul style="list-style-type: none"> <li>Further enhance capabilities associated with climate-related risks and opportunities measurement.</li> </ul>	1.1, 1.2, 1.3, 1.4, 3.1, 3.2, 3.3, 3.4, 3.5, 4.3, 5.1.
<b>The impact of climate-related risks and opportunities on our businesses, strategy and financial planning</b>	<ul style="list-style-type: none"> <li>NatWest Group made a number of environmental, social and ethical (ESE) policy updates during 2021 to help end the most harmful activity and concluded a credible transition plan (CTP) assessments for oil and gas majors and in scope coal customers. This supported our stated ambition to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a CTP in line with the 2015 Paris Agreement in place by the end of 2021.</li> <li>We continued to harness climate-related opportunities. We exceeded our 2020-2021 Climate and Sustainable Funding and Financing target in under 18 months and supported our retail customers with a range of Green Mortgage products.</li> <li>Our work on climate scenario analysis has supported our assessment of climate related risks and opportunities and helped re-affirm our climate ambition. We continued to build powerful partnerships, acting as a principal partner at COP26, and becoming a founding member of the Net Zero Banking Alliance and Glasgow Financial Alliance for Net Zero (GFANZ).</li> <li>We worked to incorporate climate in the financial planning process by developing our first carbon plan. This included an assessment of carbon impacts of current and planned climate-related opportunities as well as climate-related risks, particularly those related to dependencies on future policy and technology development.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to integrate climate in business activities.</li> <li>Further enhance carbon planning capability to support the development of transition plans to measure and track our progress towards our ambition to halve the climate impact of our financing activity by 2030.</li> </ul>	1.1, 1.2, 1.3, 1.4, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8.
<b>The resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario</b>	<ul style="list-style-type: none"> <li>During 2021, NatWest Group has developed its scenario analysis capabilities and deepened its understanding of climate-related risks and opportunities through its participation in the Bank of England’s Climate Biennial Exploratory Scenario (CBES) exercise. NatWest Group has also taken further steps to translate these insights into tangible action that will enable us and our customers to mitigate climate-related risks and take advantage of the opportunities that the transition to net zero will create.</li> <li>NatWest Group has used three scenarios published by the Bank of England for its CBES exercise as the foundation for its scenario analysis, including an early action scenario which assumes the increase in global temperature is limited to under 2.0°C. Also, scenarios have been used to estimate financed emissions reductions required by 2030 to support our net zero by 2050 ambition.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to enhance scenario modelling and analytic capabilities.</li> <li>Continue to address significant challenges related to the availability of granular customer data.</li> <li>Respond to developing regulatory requirements on the approach to climate-related risk within the regulatory capital regime.</li> </ul>	3.4, 3.7, 3.8, 5.7.



1.5

# Climate-related disclosures overview continued



2021 progress

Future priorities

Section

## Risk Management

### How NatWest Group identifies, assesses and manages climate-related risks

#### Our processes for identifying and assessing climate-related risks

- Climate risk was incorporated into the NatWest Group risk directory as a principal risk in February 2021 and in April, Board Risk Committee approved a principles-based climate risk policy that defined the key requirements for the identification, assessment, and management of climate risk, through the incorporation of climate considerations in key risk management processes.
- We completed a qualitative assessment of the current and potential impact of physical and transition climate risk as a causal factor to other risks. This assessment of relative significance identified the following principal risks as being most exposed to climate-related impacts: credit risk; operational risk; reputational risk; conduct risk and regulatory compliance risk.
- NatWest Group regularly considers existing and emerging regulatory requirements related to climate change through external horizon scanning and monitoring of emerging regulatory requirements which is completed by our Legal, Governance and Regulatory Affairs team.

- Continue enhancements to our enterprise wide risk toolkit to support identification and assessment of risk impact on other principal risks.

3.1, 3.2, 4.1.

#### Our processes for managing climate-related risks

- The management of climate risk is largely delivered through three mechanisms: scenario analysis, long-term balance sheet transformation and enhanced climate risk data capabilities.
- NatWest Group has established a climate risk appetite statement, determining the level of risk which the climate risk policy seeks to operate within.
- A climate maturity rating was developed, which supports ongoing assessment of climate risk management throughout the organisation. This approach translated NatWest Group’s climate risk policy into thematic management outcomes.
- As at 31 December 2021, NatWest Group has achieved first generation implementation of climate risk management, with a predominantly qualitative approach to internal risk policy outcomes, covering priority sectors or customers. Where quantitative approaches are applied, they are predominantly conducted on an ad hoc basis.

- Work will continue to further integrate climate-related risk across business processes to achieve full integration within risk management and decision-making.
- Future target state includes, but is not limited to, climate risk being systematically captured as a quantified risk factor within lending and risk decision-making, informing limits and pricing.

3.1, 3.2, 4.2.

#### How our processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management

- Retail credit risk: A review of EPC and flood impact was finalised for the Retail Banking residential mortgage portfolio; Credit oversight tracking of EPC and flood risk concentrations have been developed. In addition, preliminary climate operational measures were developed.
- Wholesale credit risk: Continued evolution of our credit risk frameworks to incorporate climate risk, for example its inclusion in Transaction Acceptance Standards (TAS) and in climate commentary within credit applications for the majority of the wholesale portfolio.
- Operational risk: NatWest Group-wide operational risk climate scenarios were completed in 2021. Two distinct extreme heat scenarios were considered.
- Reputational risk: Review of risk acceptance criteria (RAC) suite to validate the sectors which present high environmental, social and ethical (ESE) risk.
- Conduct risk and regulatory compliance risk: Supported the development and embedding of climate focused questions which have been embedded into the existing governance processes.

- Continue to assess impact of climate-related risks on NatWest Group’s financial and non-financial risk profile as part of risk and control assessment of relevant processes.
- Further embedding of climate considerations in product design and lending decisions through the use of climate risk data (EPC and flood analysis, CBES findings).

3.1, 3.2, 4.3.



1.5

# Climate-related disclosures overview continued

	2021 progress	Future priorities	Section
<b>Metrics and Targets</b>	<b>The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material</b>		
<b>The metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process</b>	<p><b>Metrics used to assess climate-related risks:</b></p> <ul style="list-style-type: none"> <li>– Exposures to heightened climate-related risk sectors.</li> <li>– Energy efficiency and flood risk assessment for Retail Banking residential mortgage portfolio.</li> <li>– Capital markets transactions.</li> <li>– NatWest Group own operational footprint.</li> <li>– Estimates of financed emissions and emission intensities.</li> </ul> <p><b>Metrics used to assess climate-related opportunities:</b></p> <ul style="list-style-type: none"> <li>– Climate and Sustainable Funding and Financing.</li> <li>– NatWest Group Own Green Bond issuance.</li> </ul> <p>We added performance against climate targets as part of the bonus pool assessment for our wider workforce. Refer to the Directors’ Remuneration Report in the NatWest Group plc 2021 Annual Report and Accounts for further details.</p>	<ul style="list-style-type: none"> <li>– We will continue to develop metrics and measurement capabilities to monitor and manage climate-related risks and opportunities during 2022.</li> </ul>	<p>3.4, 3.5, 4.2, 4.3, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7.</p>
<b>Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks</b>	<p><b>We continued to develop and enhance capabilities to measure our carbon footprint in relation to our own operational footprint as well as financed emissions:</b></p> <ul style="list-style-type: none"> <li>– We reduced our direct own operations carbon footprint by 46% against a 2019 baseline, and increased our renewable electricity consumption to 97%.</li> <li>– We worked on enhancing our capabilities across an additional eight emissions intensive wholesale sectors. We also extended the scope of emissions calculations for the oil and gas sector beyond extraction activities covered in 2020. We have now analysed 52% of our loans and investment portfolio based on 2019 gross on-balance sheet loans and investments.</li> </ul>	<ul style="list-style-type: none"> <li>– To support our commitments to the Net Zero Banking Alliance, we will align to the Science Based Targets initiative’s (SBTi) definition and account for the wider value chain, including suppliers, for our own operational footprint.</li> <li>– We have submitted our 2030 sector emissions reduction estimates to SBTi for validation and will continue our work to enhance availability of data to support future calculations of financed emissions and emissions intensities.</li> </ul>	<p>5.6, 5.7, 5.8.</p>
<b>The targets used to manage climate-related risks and opportunities and performance against targets</b>	<p>Our stated climate ambition is to be a leading bank in the UK helping to address the climate challenge. We have committed to achieve net zero by 2050 across our financed emissions, assets under management and our operational value chain. Progress is monitored via climate-related targets and ambitions across the following thematic opportunities:</p> <ul style="list-style-type: none"> <li>– Accelerating the speed of transition.</li> <li>– Helping to end the most harmful activity.</li> <li>– Championing climate solutions.</li> <li>– Embedding climate into our culture and decision-making.</li> <li>– Net zero for our operational value chain.</li> </ul>	<ul style="list-style-type: none"> <li>– We will continue to monitor our performance against our climate-related targets and ambitions and revise, as appropriate.</li> </ul>	<p>1.1, 3.4, 3.5, 5.</p>





# 2

## Governance

The Board oversees and the senior management team manages NatWest Group's response to climate change.

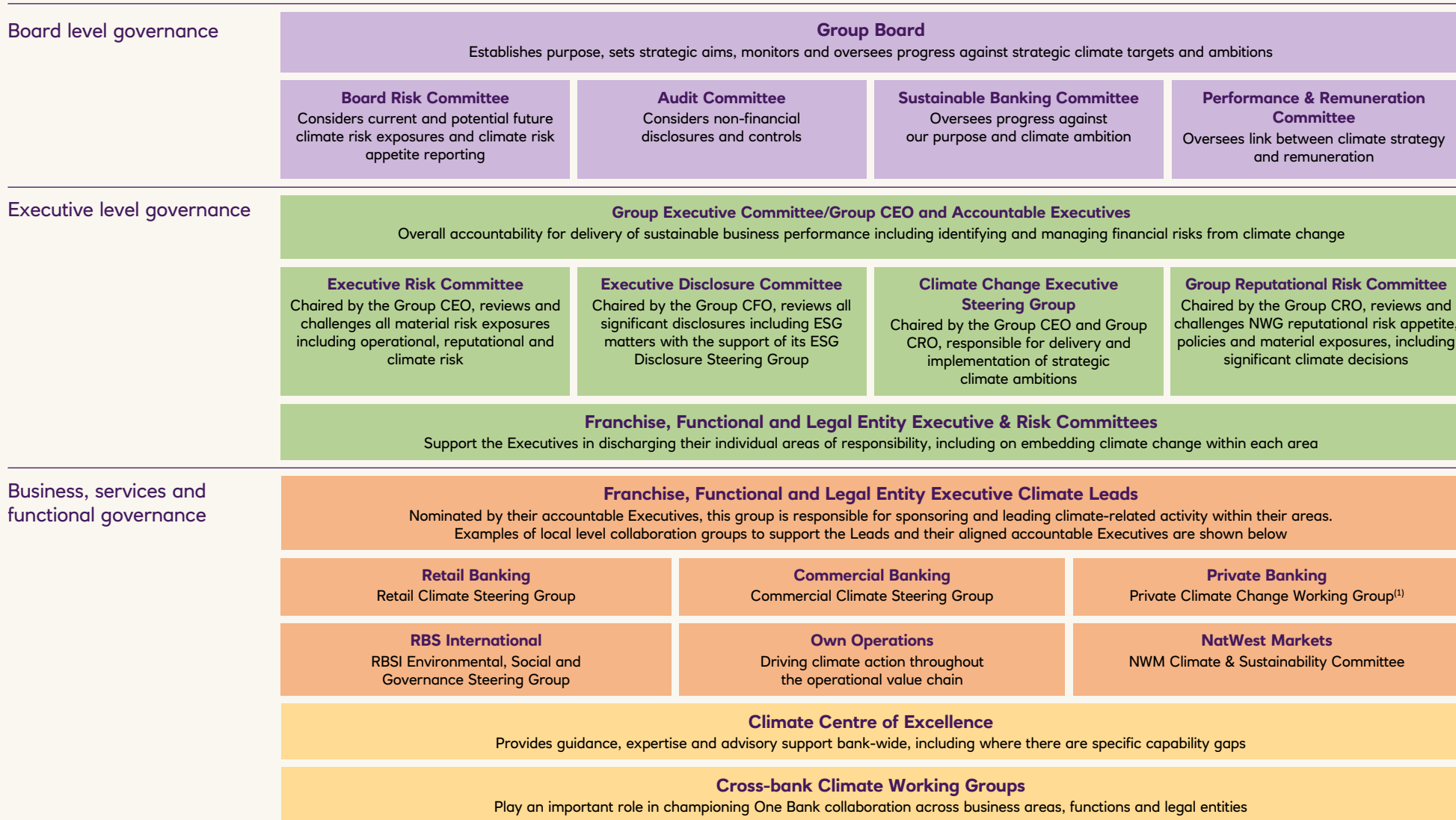
- 2.1 Supporting effective decision-making through an integrated approach
- 2.2 Board oversight of climate-related risks and opportunities
- 2.3 Management's role in assessing and managing climate-related risks and opportunities



2.1

# Supporting effective decision-making through an integrated approach

Board and senior management oversight of climate-related risks and opportunities is supported by embedding climate within our established governance structure and operating rhythm.



1. Supported by additional Private Banking committees involved in oversight of investment and asset management-related climate activities. For further information on NatWest Group's corporate governance framework refer to the Corporate Governance section of the 2021 Annual Report and Accounts.

## 2.2 Board oversight of climate-related risks and opportunities

Board monitoring and oversight of climate-related risks and opportunities is supported by establishing clear roles and responsibilities for the Board and Board Committees, as well as robust management reporting on climate strategy, ambition and risk management activities.

Details of Board and Board Committee activities relating to climate are noted below and in the Corporate Governance section of the 2021 NatWest Group plc Annual Report and Accounts. At a subsidiary level, the boards of NatWest Group’s principal and material subsidiaries exercised oversight of key climate-related risks and opportunities through risk reporting and management updates.

### Board considered climate-related matters at all six scheduled<sup>(1)</sup> meetings in 2021

The Board received updates from the NatWest Group CEO, Group CFO, Group CRO and other senior executives on climate-related risk and opportunities impacting NatWest Group, our customers and key strategic partnerships.

The Board examined the results of climate stress testing and scenario analysis, for shorter and longer time horizons and reviewed risk appetite updates. The outcome led to the Board approval of the final CBES submission to the PRA.

The Climate strategy spotlight opposite explains how climate featured within the Board’s annual strategy session. A Board Business Insights Pack was received in advance of every Board meeting, giving directors a snapshot of NatWest Group’s progress against our climate ambition. Committee Chairs also provided the Board with an overview of relevant climate issues which were discussed at Committee meetings.

The Board members also participated in the annual climate training, more details in the Board training spotlight opposite.

#### Key decisions approved by the board during 2021 include:

- February: 2020 ESG Supplement and Climate-related Disclosures Report approval.
- April: NatWest Group’s climate risk appetite qualitative statement.
- September: Final CBES submission.
- October: £100 billion Climate and Sustainable Funding and Financing target.
- October & December: Considered the merits and challenges of submitting a resolution related to the Group’s climate ambitions at the 2022 AGM.
- December: Approved climate risk appetite measures (refer to section 4.2 for details) and considered the first carbon plan as part of the overall 2022 Budget.

1. Ad hoc meetings and an annual strategy session also took place throughout the year. Climate matters were considered at some of these additional sessions.

### Board training

The annual Board climate training session in October helped to enhance directors’ climate-related knowledge. This was a comprehensive training session where representatives from executive management were joined by NatWest Group’s independent climate adviser, Lord Stern of Brentford, the Chair of the Grantham Research Institute on Climate Change and the Environment. Areas of focus included recent key external developments and their impact on NatWest Group, including evolving regulatory and investor expectations, as well as rising external expectations relating to the banking sector as a whole. Directors also discussed expectations for COP26 from a policy, business, and banking perspective.

### Climate strategy

Climate matters featured in the Board’s annual strategy discussions in June 2021. Directors were invited to consider various purpose ‘conundrums’: real life dilemmas that could arise as NatWest Group seeks to balance our purpose priorities with commercial reality. For example, one discussion group reflected on how we could best support the UK economy in its recovery while transforming our loan portfolio to meet climate ambitions. These discussions were followed by an opportunity to share feedback with the Executive team and explore potential challenges.



**Board Risk Committee considered climate-related matters at all eight scheduled meetings in 2021**

The Committee reviewed NatWest Group’s climate risk profile at every meeting with reference to the Group Risk Management Report and challenged management to consider how NatWest Group’s climate-related financial risk profile is articulated through the report, to ensure appropriate recognition of the significance of the risk.

The Committee monitored progress on the development of climate risk appetite quantitative measures in advance of the annual review of Risk Appetite in December 2021. See section 4.2 for further detail.

**Key climate-related matters considered in 2021:**

- April: Approved the climate risk policy, following the elevation of climate risk to principal key risk status. The Committee also recommended NatWest Group’s first climate risk appetite qualitative statement to the Board for approval.
- July: Approved the expansion of the scenarios to be used in the CBES stress test.
- September: Reviewed and recommended the final CBES submission to the Board for approval.
- October: Received an update on climate risk appetite and measures.
- December: Noted an update on climate risk including Group Climate Change Programme closure activity.
- December: Recommended the climate risk appetite statement and measures to Board for approval as part of the annual review of risk appetite.

**Sustainable Banking Committee considered climate-related matters at all five scheduled meetings in 2021**

The Committee dedicated one of its meetings entirely to receiving updates on progress against NatWest Group’s climate ambition. Since June 2021, the Committee has received a purpose management information dashboard at every meeting. The dashboard provides a snapshot of progress against key purpose metrics and targets, including climate. The Committee received an update on ESG scoring from external ratings agencies and a deep dive on our first carbon plan, both supporting its oversight of climate progress

**Key climate-related matters considered in 2021:**

- April: Considered key external developments relating to climate and their potential impact on NatWest Group. Focus areas included key messages from a recent NGO roundtable and an update on COP26 preparations.
- April: During a franchise-led presentation on climate-related returns and opportunities, the Committee discussed with management the importance of continuing to identify and offer new products, services and sustainable funding and financing, to support customers and accelerate the transition to net zero.
- December: Deep dive on NatWest Group’s first carbon plan (refer opposite).

**CBES training**

**‘Talking heads’**

To support their understanding of the selected CBES scenarios, Board Risk Committee members were given internally developed ‘talking heads’ video training, which includes core and optional modules. This additional background covered:

- An overview of climate risk and how NatWest Group is addressing the challenge;
- How the CBES exercise supports effective climate risk management and our overall climate ambitions;
- Background to the scenarios featured in the CBES exercise.

This video training was shared with the full Board as part of a broader support pack prepared in advance of the Board’s consideration of the final CBES submission.



**Budgeting**

**Our first carbon plan**

Prior to consideration by the Board of the overall 2022 Budget, the Sustainable Banking Committee discussed NatWest Group’s first carbon plan, which was developed alongside the main five-year financial plan.

The carbon plan included an assessment of climate impacts of business changes incorporated in the financial plan as well as of climate-related risks and opportunities.

Refer to section 3.6 for further details on the work done to incorporate climate considerations in the financial planning process.





**Group Audit Committee considered climate-related matters at four of five scheduled meetings in 2021**

The Committee focused on the review of controls surrounding the preparation and disclosure of climate-related reporting. Its Terms of Reference were expanded in early 2021 to formalise its remit relating to non-financial disclosures. The Committee also received updates at each meeting from the Executive Disclosure Committee to maintain visibility of executive-level activities in relation to climate-related disclosures.

**Key climate-related matters considered in 2021:**

- February, July and October: Review of external climate disclosures ahead of publication including the basis of preparation for the disclosures and the controls framework, which was expanded during the year.
- October: Approved the appointment of the external auditor to undertake assurance work on certain sustainability disclosures.

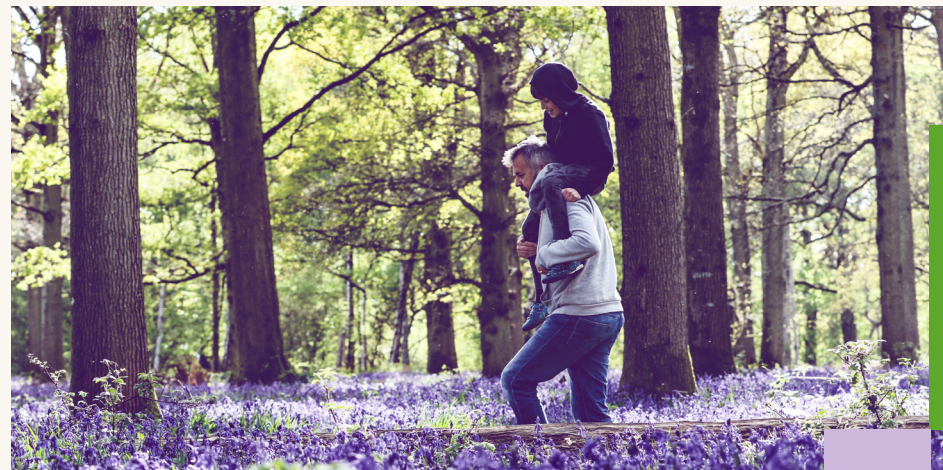
**Group Performance & Remuneration Committee considered climate-related matters at seven of nine scheduled meetings in 2021**

Our ambition 'to be a leading bank helping to address the climate challenge' has been a consideration for senior executive remuneration since 2020. The process continued in 2021 with the Committee approving specific climate measures and targets for executive directors and Executive Committee members and assessing progress made at the end of the year as part of the pay decisions for these individuals.

**Key climate-related matters considered in 2021:**

- As well as reviewing individual performance in 2021, the Committee set three climate performance measures for executive directors and ExCo members for 2022. These will be taken into account in future variable pay decisions.
- A further development in 2021 was the introduction of a climate-specific measure as part of the annual bonus scorecard. This now strengthens the link between our climate performance and wider workforce remuneration.

Refer to the Directors' Remuneration Report in the 2021 Annual Report and Accounts for further information on executive remuneration.



## Managing climate-related disclosures

We established a management-level Environmental, Social and Governance Disclosures Steering Group in 2019 to provide additional controls around our climate and broader ESG-related disclosure and reporting. This is a sub-committee of the Executive Disclosure Committee and operates under the Group CFO's delegated authority. The Group comprises the following members:

- Director of Sustainable Banking
- Head of Treasury, ESG and Disclosure Legal
- Head of Investor Relations
- Head of Climate Risk
- Head of Climate & Purpose Finance
- Head of Climate Centre of Excellence

The ESG Disclosures Steering Group reviews and approves responses to environmental, social and governance surveys, as well as ESG Supplement published on NatWest Group's website. In 2021, it supported a busy climate agenda, providing advice and challenge on several initiatives, including ESG rating agency survey returns and NatWest Group's climate-related policy statements announced alongside our participation as a principal partner of COP26.



2.3

# Management’s role in assessing and managing climate-related risks and opportunities

Climate governance at management level begins with NatWest Group CEO and NatWest Group CRO, who share joint accountability under the Senior Managers and Certification Regime for identifying and managing the financial risk of climate change.

- NatWest Group CRO is responsible for ensuring that the financial risks from climate change are reflected in risk management frameworks and, in line with our three lines of defence model, the Risk function provides effective independent oversight of the first line of defence.
- NatWest Group CEO’s responsibility for strategic delivery is delegated to the following in her Executive team: NatWest Group CFO, NatWest Group CAO, NatWest Group Director (Strategy & Ventures) and the Business CEOs.
- Each has shared responsibility for strategic delivery relating to financial risks and opportunities that arise from climate change ensuring that NatWest Group identifies, measures, monitors, manages and reports on opportunities as well as exposures to risks.

## Management responsibilities and reporting lines

The executive-level committees shown in section 2.1 provide support to the executive team. This includes leadership teams and pan-bank groups who provide insight, expertise and additional controls where needed.

Under our integrated governance structure, business areas are expected to ensure that climate considerations are built into day-to-day operational decision-making. The Accountable Executives are empowered to take decisions within their areas of accountability and responsibility, with clear escalation and reporting routes in place to the Climate Change Executive Steering Group, see spotlight opposite. Nominated by their accountable Executives, climate leads within each business area and function are responsible for sponsoring and leading climate-related activity within their areas.

Work is ongoing to integrate climate risk into business-level policies and frameworks, which in turn will enable climate risk to be effectively managed in the same way as other risk types. This work is led by a dedicated climate risk team, which was established in 2021 to discharge second line of defence accountability of risk oversight and act as a consolidated centre of excellence on climate risk.

Several cross-bank climate-related forums support collaboration and continue to play an important role in our climate governance structure. These include a climate lead group of executive delegates and a Climate Opportunities Group, which drives a One Bank approach to strategic progress.

The Own Operations Executive Steering Group are responsible for delivery of the climate purpose commitments and the 2025 – 2050 targets for our operational value chain.

The Climate Centre of Excellence was created in 2021 to support the implementation of our climate ambition. The team has in-depth knowledge of climate change that complements capabilities that sit in the rest of the organisation. The Climate Centre of Excellence adds value by providing climate leadership to support NatWest group and our customers. The Climate Centre of Excellence works with franchises, functions and external stakeholders, promoting collaboration and driving ambition.



## Steering the climate agenda

The Climate Change Executive Steering Group, chaired by the Group CEO and CRO during 2021, is the primary management forum responsible for overseeing direction and progress relating to NatWest Group’s climate-related commitments. During 2021, the Steering Group focused on the Group Climate Change Programme, which was tasked with mobilising and monitoring how internal teams are delivering the climate-related mandatory change agenda. This included overseeing progress on meeting the expectations set out in the PRA’s Supervisory Statement SS3/19.

Key areas of focus for the group in 2021 included delivery against climate-related regulatory expectations, shaping NatWest Group’s climate change strategy including future opportunities as well as risks and overseeing the design of NatWest Group’s climate change operating and reporting model.

The Programme came to an end in December 2021. The management governance model will therefore shift from a programme-led approach to a framework embedded within our existing accountability structures. This will support the full integration of climate risk within our businesses and functions, while sharpening the Steering Group’s focus.

The Steering Group was refreshed in January 2022 to drive strategic implementation and delivery. To support this shift, the Director of Strategy and Corporate Development has taken the Chair role. The Group CEO and Group CRO remain key members of the Steering Group given their shared accountabilities. Membership has also been extended to include the wider executive team who have climate-related responsibilities delegated from the Group CEO.





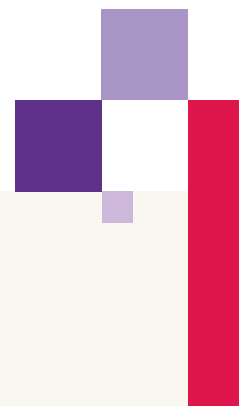
# 3

## Strategy

The actual and potential impacts of climate-related risks and opportunities on our businesses, strategy and financial planning.

- 3.1 NatWest Group and climate change
- 3.2 Climate-related risks identified over the short, medium and long term
- 3.3 Climate-related opportunities identified over the short, medium and long term
- 3.4 Impact of climate-related risks and opportunities on our strategy
- 3.5 Impact of climate-related risks and opportunities on the business
- 3.6 Impact of climate-related risks and opportunities on the financial planning process
- 3.7 Scenarios used to inform strategy and financial planning
- 3.8 The resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario





# 3.1 NatWest Group and Climate Change

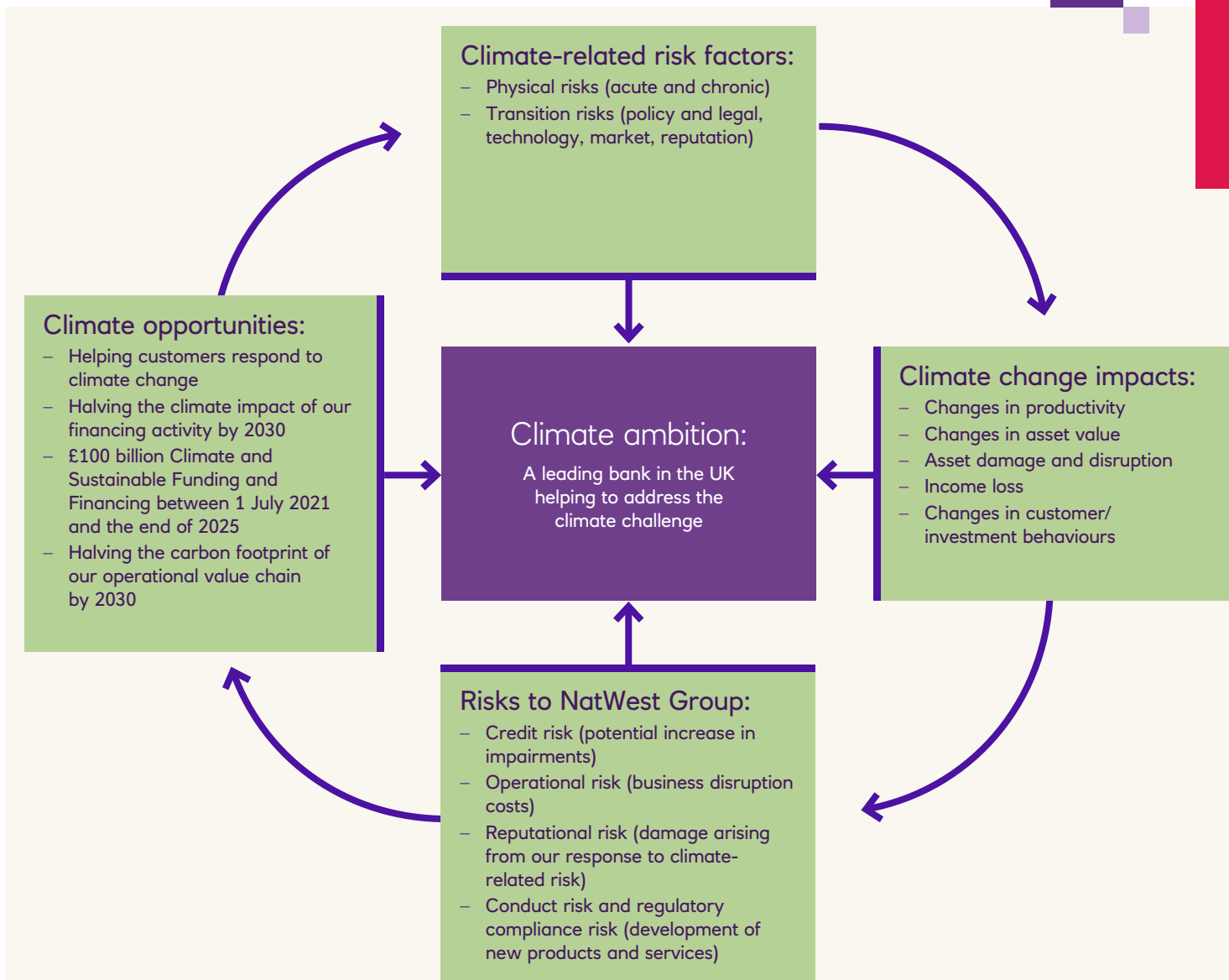
We recognise that climate change is a global issue which has significant implications for our customers, employees, suppliers, partners, investors and therefore NatWest Group itself. Our ambition to be a leading bank in the UK helping to address the climate challenge has been influenced by the impact of climate change on us and our potential to take action to influence the impact of climate change.

As a primarily UK-focused bank the majority of climate-related risks and opportunities have been considered through a UK lens. Notable exceptions are included as part of this report, for example our operational risk scenario covered in section 4.3.

**Risks:** The physical and transition risks associated with climate change are transmitted through the economy to NatWest Group. This transmission happens in a number of ways, including, but not limited to, impacts on NatWest Group's key risks. See Section 3.2 for further details.

**Opportunities:** Addressing the climate challenge provides a range of opportunities, such as the provision of funding and financing within our CSFI criteria. See section 3.3 for further details.

The image opposite illustrates how climate change affects NatWest Group and how the development and achievement of our climate ambitions can influence climate change. Section 3.4 outlines how climate-related risks and opportunities have been, and continue to be, incorporated into our evolving strategy.





3.2

# Climate-related risks identified over the short, medium and long term

NatWest Group has adopted a dual approach to the integration of climate risk into our EWRMF. Climate risk has been recognised as both a principal risk as well as a causal factor affecting several other closely correlated financial and non-financial risks.

Recognising uncertainty around the timing and the channels through which financial and non-financial risks from climate change are likely to materialise, initial focus has been given to those physical and transition risk factors deemed most material to NatWest Group’s risk profile. A combination of regulatory guidance, industry engagement, risk management best practice and expert judgement was used to shortlist those principal risks deemed to be most vulnerable to climate-related impacts. Please refer to section 4.1 for further details.

The table below outlines the events and impacts associated with the transition and physical risks arising from climate change. This includes an initial assessment of expected time horizons, potential impacts and linkage to risk types, where climate is considered to have a relatively significant impact on their respective future risk profile. Please refer to section 4.1 for more detail on relative significance and methodology used to assess climate-related impacts across the short (1-5 years), medium (10 years) and long term (30 years).

Risk sources	Transition risks				Physical risks	
	Policy & Legal	Technology	Market	Reputation	Acute	Chronic
<b>Events</b>	<ul style="list-style-type: none"> <li>Increased GHG emissions pricing in order to incentivise movement to renewable energy sources.</li> <li>Enhanced regulatory environment and mandated requirements: may introduce minimum standards or expectations on green credentials of product outputs or business operations.</li> </ul>	<ul style="list-style-type: none"> <li>Substitution of technology, including requirements to replace manufacturing technology to cleaner alternatives.</li> <li>Investment in technology to reduce emissions or improve energy efficiency ratings (e.g. EPC) of operations or household.</li> </ul>	<ul style="list-style-type: none"> <li>Increased volatility and costs, sourcing restrictions for carbon-heavy raw materials.</li> <li>Limited supply and increased demand of energy efficient and low flood risk properties.</li> <li>Change in consumer behaviours including deliberate move to lower-carbon footprint products.</li> <li>Competitor changes – new entrants focused on green credentials, entering market without incurring transition costs.</li> </ul>	<ul style="list-style-type: none"> <li>Changing customer, community and other stakeholder views, attitudes, perceptions and values on climate.</li> <li>Increased scrutiny including from regulators, media, on carbon emissions for a business, its supply chain including who provides financing.</li> <li>Increased stakeholder, shareholder scrutiny if lack of action on reduction in emissions.</li> </ul>	<ul style="list-style-type: none"> <li>Increased frequency and severity of climate-driven events. This could include storm damage, flooding. Damage can be caused to property, local transport and haulage infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>Alterations in weather patterns and stability of local ecosystems affecting food production and living environment.</li> <li>Rising temperatures affecting working conditions, living conditions and local infrastructure.</li> <li>Rising sea levels affecting local ecosystems, as well as increasing subsidence and flood risks.</li> </ul>
<b>Expected time horizon</b>	Short – Medium	Short – Medium	Short – Medium	Short – Medium	Short – Medium – Long	Long
<b>Potential impact</b>	Demand destruction driven by regulatory change; direct carbon costs increase costs of living and operations; increased costs of compliance and litigation; diminished value of assets.	Increased cost derived from investment in new technology; diminished value of existing technology and infrastructure.	Demand destruction with reduced demand for products and services; diminished competitive position against market; diminished value of assets; increased costs to adapt to market demands.	Demand destruction with reduced demand for products and services; potential disruption costs; diminished value of assets; reduced funding availability, increased cost of debt.	Business disruption; increased recovery and insurance costs; diminished value of assets.	Business disruption; increased recovery and insurance costs; diminished value of assets; employment market shifts.
<b>Principal risks impacted</b>	Credit risk, Reputational risk, Operational risk, Conduct risk, Regulatory compliance risk				Credit risk, Operational risk, Conduct risk	





3.3

# Climate-related opportunities identified over the short, medium and long term

While climate change poses significant risks, it also offers NatWest Group a range of opportunities to take pro-active action to address the climate challenge and to support the transition to net zero.

Climate-related opportunities identified as having a potentially significant impact on NatWest Group are outlined in the table below. Potential impacts have been included in line with time periods covered in section 3.2, noting the timing reflects the full impact of the opportunity being realised and that there is a dependency on the UK Government and clear, early regulatory policy and technology developments, as well as on our customers and society to respond (see section 5.7). At the same time, as a purpose-led organisation, we aim to engage and support our customers' transition to a net-zero economy. Further detail on how we are exploring potential opportunities to support customers is available throughout section 3.

Our processes to identify and manage climate-related opportunities centre around pan-bank forums and local committees that support collaboration, including a group of executive delegates and a Climate Opportunities Group, which drives a One Bank approach to strategic progress.

Opportunity	Related NatWest Group ambition	Expected time horizon	Potential impacts on NatWest Group
<b>Accelerating the speed of transition to a net-zero economy</b>	We have an ambition to support our UK mortgage customers to increase their residential energy efficiency and incentivise purchasing of the most energy efficient homes, with an ambition that 50% of our mortgage book has an EPC rating of C or above by 2030.	Medium	<ul style="list-style-type: none"> <li>Increased balance sheet volumes through demand for new products and services that support customer transition.</li> </ul>
	We plan to collaborate cross industry and create products and services to enable customers to track their carbon impact.	Short – Medium – Long	<ul style="list-style-type: none"> <li>Reduced balance sheet volumes related to lower energy efficient homes.</li> <li>Additional expenditure to develop new products and services.</li> </ul>
	We plan to reduce the carbon intensity of our funds and discretionary portfolios by 50% by 2030 and to achieve net zero on discretionarily managed assets by 2050.	Medium – Long	<ul style="list-style-type: none"> <li>Decrease in emissions due to customer transition</li> </ul>
<b>Helping to end the most harmful activity</b>	We plan to phase out of coal for UK and non-UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full global phase out by 1 January 2030.	Short- Medium	<ul style="list-style-type: none"> <li>Reduced exposure to coal customers.</li> </ul>
<b>Championing climate solutions</b>	We have a target to provide £100 billion Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.	Short	<ul style="list-style-type: none"> <li>Increase in volume of Climate and Sustainable Funding and Financing, on and off balance sheet.</li> </ul>
<b>Embedding climate into our culture and decision-making</b>	We have an ambition to at least halve the climate impact of our financing activity by 2030 and align with the 2015 Paris Agreement. To do this, we plan to quantify our climate impact and set sector-specific targets by the end of 2022.	Medium	<ul style="list-style-type: none"> <li>Reduction in the climate impact of loans and investments</li> </ul>
<b>Net-zero emissions for our operational value chain</b>	We have a target to reduce our direct own operations carbon footprint by 50% by 2025, against a 2019 baseline.	Short	<ul style="list-style-type: none"> <li>Increased expenditure to support reduction in carbon footprint on our own operations.</li> </ul>
	We plan to reduce the carbon footprint for our wider operational value chain by 50%, against a 2019 baseline, by 2030 and achieve net zero by 2050.	Medium – Long	<ul style="list-style-type: none"> <li>Reduced expenditure related to energy, travel and water management.</li> </ul>
	We plan to use only renewable electricity in our direct own global operations by 2025 (RE100) and improve our energy productivity 40% by 2025, against a 2015 baseline.	Short	
	We plan to install electric vehicle charging infrastructure in 15% of spaces across our UK portfolio by 2030 and upgrade our fleet of around 300 vehicles to electric models by 2025 (EV100).	Short – Medium	



## 3.4

## Impact of climate-related risks and opportunities on our strategy

We have an ambition to reduce our climate impact by 50% by 2030, against a 2019 baseline, and intend to do what is necessary to achieve alignment with the 2015 Paris Agreement and achieve net zero by 2050. This includes:

- **Financed emissions:** Greenhouse gas emissions from loans and investments activity, attributable to NatWest Group.
- **Assets under management:** Greenhouse gas emissions associated with our discretionarily managed assets.
- **Our operational value chain:** Greenhouse gas emissions related to the upstream and downstream activities associated with our operations.

When we announced our purpose-led strategy in 2020, we acknowledged the significant challenge this posed, and are determined to lead on the collaboration critical to influencing the transition to a net-zero economy. Our climate ambition incorporates climate-related

opportunities and enables us to identify climate-related risks. As a largely UK-focused bank, we aim to support the UK Government's 'The Ten point Plan for a Green Industrial Revolution'. It provides us the opportunity to support our customer's transition to a net-zero economy. Sections 3.5.1 to 3.5.5 summarise our 2021 progress.

In 2021, we classified 'Biodiversity and Nature Loss' as a formal emerging risk, underlining the importance of this to our organisation and our stakeholders. Ahead of COP26 we published our biodiversity and nature statement<sup>(1)</sup> which can be found on the [our purpose section](#) of [natwestgroup.com](#).

It is only through collaboration with others, building powerful partnerships and supporting customers that the scale of the climate emergency can be addressed. The following shows some examples of our work in these areas. More detailed content can be found in the [climate section](#) of [natwestgroup.com](#)

### Working together to drive action

We are committed to working collaboratively with our partners, stakeholders and peers to deliver our climate ambition. During 2021, NatWest Group continued to engage with investors, NGOs and other key stakeholders on the actions we are taking to play our part in addressing the climate challenge. Tackling climate change is a significant challenge; solving this will require UK and international industry, regulators and experts to come together and find solutions. NatWest Group has collaborated with various industry bodies and policy makers during 2021, some of which are listed below.

**COP26:** We were proud to have been one of the principal partners of COP26, demonstrating how we can support our customers and other stakeholders.

**Glasgow Financial Alliance for Net Zero (GFANZ) and Net Zero Banking Alliance (NZBA):** We are a founding member of GFANZ and NZBA, demonstrating our commitment to work collaboratively with peers, policy makers and other stakeholders. Within GFANZ, our CEO, Alison Rose co-leads the sub-working group on Real Economy Transitions.

**Sustainable Markets Initiative:** NatWest Group joined the Sustainable Markets Initiative's Financial Services Task Force (FSTF) in 2020. It aims to establish common principles for how banks can achieve net zero.

**Net Zero Asset Managers (NZAM):** Coutts joined NZAM in 2021, committing to reach net-zero emissions across our managed investments by 2050 and to collaborate with asset managers representing an estimated \$57 trillion of assets under management. As part of the initiative we will be working with industry peers to set ambitious standards for net zero investment and engagement

**Carbon Disclosure Project (CDP):** We achieved a B score in the 2021 CDP Climate Change Survey, aligning us with the financial services average. Though our latest rating was a downgrade compared to 2020, we are working to further integrate climate-related considerations within business processes and support the transition to a Net Zero economy.

**Clean Transport Declaration on zero emission cars and vans:** NatWest Group became a signatory to this landmark global agreement, launched by the UK Presidency on Transport Day at COP26. The declaration brings together national governments, states, regions, cities, vehicle manufacturers, businesses, investors and society all committed to working towards 100% zero emission vehicle sales by 2035 in leading markets, and no later than 2040 globally.

**NatWest Markets was invited to join several working groups and steering committees with industry bodies:**

- London Stock Exchange's Sustainable Bond Market Advisory Group
- The Association for Financial Markets in Europe (AFME)'s Social & Expanded Taxonomy Working group
- The International Capital Market Association (ICMA) Advisory Council of the Green Bond Principles and Social Bond Principles Executive Committee
- UK Sustainable Investment and Finance (UK SIF) Green Taxonomy working group
- The Securities Industry and Financial Markets Association and Asia Securities Industry and Financial Markets Association Sustainable Finance working groups
- FICC Markets Standards Board (FMSB) ESG Ratings working group

1. <https://www.natwestgroup.com/content/dam/natwestgroup.com/natwestgroup/pdf/nwg-biodiversity-nature.pdf>





## Impact of climate-related risks and opportunities on our strategy continued


### Powerful collaborations


Throughout 2021 we collaborated with various parties to help address the climate challenge.

Key examples include:


 In November 2021 we launched a carbon tracking feature in our mobile banking app<sup>1</sup>, in collaboration with CoGo, making us the first bank in Europe to provide customers with the estimated carbon footprint associated with their monthly spend. In 2021 we also designed a pilot carbon tracker app, in collaboration with CoGo, to support SMEs.

 We announced a collaboration in September 2021 with the Edinburgh Climate Change Institute (ECCI) to provide support to Scottish SMEs to become key agents in driving a more sustainable and resilient economy.


 In October 2021 we launched our 'A Greener World Needs a Plan' podcast series, available on Spotify, in collaboration with the Scotsman. The podcast focuses on how SME businesses can make the shift to net zero and the market advantage this could give them. The series includes conversations with customers as well as a key climate leads across NatWest Group. Three podcast episodes launched, with over 7,000 listens as at 19 January 2022.

 In July 2021 we announced a collaboration with the Sustainable Food Trust (SFT) to develop an industry leading tool to help farmers measure their environmental impact. Over the next two years we will support the development of a common

framework of farm sustainability metrics and an accompanying assessment tool that will enable farmers to measure their environmental and social impact and give them actionable insight to help reduce their emissions. We are the first bank to invest in developing this solution with the SFT for the agriculture sector, and we'll develop the Global Farm Metric, which intends to act as an industry-accepted platform through which farmers can meet multiple sustainability data requests, for example, for audits or requests from retailers, banks or governments.

 Coutts has a strategic relationship with BlackRock, through which six funds have been created. The ESG Insights funds incorporate our commitment to net zero by 2050 and have a carbon intensity that is 30% lower than that of the benchmark, and are set to decarbonise at 7% per annum.

 In July 2021, NatWest Group joined Canadian bank CIBC, Brazilian bank ITAU and Australian bank NAB to launch Carbonplace, a global first voluntary carbon marketplace, in our bid to tackle climate change and support nature-based solutions.

 During 2021, we began work with the Wild Carbon Fund, which monitors sites dedicated to rewilding, supporting the scientific community to better understand changes in ecological and biogeochemical processes – specifically the detailed assessment of carbon sequestration.

### Supporting our customer transition

We are members of the Just Transition Alliance and recognise the importance of supporting our customers on their transition to net zero.

Key activities undertaken in 2021 include:

- Climate-related questions linked to home energy efficiency and paperless preferences have now been incorporated into our Financial Health Checks from November 2021. This means all customers who receive a Financial Health Check with one of our branch-based Senior Personal Bankers and Customer Banking Managers will be prompted to consider the energy efficiency of their home and whether they want to go paperless. In February 2022 Retail Banking launched a new feature that shows homeowners the EPC rating of their property on its online mortgage hub.
- Commercial Banking continued to enhance pricing frameworks and new business capital allocation processes to factor in purpose and climate considerations. These enhancements will ensure NatWest Group continues to provide support and incentivise businesses to address the climate challenge and to reshape the Commercial Banking portfolio towards more sustainable transactions and sectors.
  - i. For our SME customers, enhancements were made to our SME loan and overdraft pricing frameworks in the second half of 2021. These enhancements build in pricing discounts for customers aligned to our purpose and climate ambitions and overall strategic objectives.
  - ii. Corporate customers in sub-sectors identified as being aligned to our purpose and climate ambitions now benefit from lower capital allocation in front book return models, which allows for more competitive pricing. Customers or transactions that are not in these identified sub-sectors also benefit from a lower capital allocation in front book return models to the extent that they align with our Climate and Sustainable Finance Inclusion (CSFI) criteria.
- During 2021, the Coutts Asset Management Centre of Expertise was among the first investment houses to buy into the UK Government's green gilts issuance, acquiring £450 million.
- We created an internal Commercial Real Estate Energy Performance Certificate (EPC) toolkit in 2021 with supporting customer facing collateral, consisting of a regulatory roadmap with Minimum Energy Efficiency Standards (MEES) milestones, minimum climate standards for transactions and guidance on how to address EPC risk through customer conversations.

1. Retail Banking apps for RBS, NatWest and Ulster Bank Northern Ireland brands.





3.5.1

# Accelerating the speed of transition to a net-zero economy

We have identified several potential climate-related opportunities over the short, medium and long-term relating to supporting our customers transition to a net-zero economy. The tables that follow summarise the initiatives developed over 2020 and 2021 to support our customers' transition to net zero, and their related impact.

Potential Opportunity	Customer	Progress	Impact
<b>Retail Banking</b>			
Green Mortgages	Mortgage customers	In August 2021 we launched our Green re-mortgage product to complement the existing Green Mortgage purchase product which went live in October 2020. Retail Banking Green Mortgage products offer a lower interest rate for customers purchasing, porting or re-mortgaging a property with an EPC rating of A or B, rewarding them for choosing an energy efficient home.  In November 2021 Retail Banking extended its Green Product offering to include Green buy-to-let Mortgages. The reduced interest rate for EPC A or B rated buy-to-let properties intends to encourage the purchase of energy efficient rental homes.	Retail Banking completed Green Mortgages with a value of £728 million during 2021.
Sustainable Homes and Buildings Coalition	Mortgage customers	In July 2021 we announced the launch of our Sustainable Homes and Buildings Coalition in collaboration with British Gas, Worcester Bosch and Shelter to explore solutions to the UK housing issue, influence change on an industry level and lobby the Government on policy changes required in the Clean Buildings space. Building on this, the coalition launched our 'Home is where the heat is' report in October 2021, which explores the UK housing market carbon issue, as well as potential solutions and opportunities.	During 2021 the Coalition held three events and launched one report. Two events were held at COP26. The third was a panel event with Lord Deben, Chairman of the UK's independent Committee on Climate Change, to launch the 'Home is Where the Heat Is' report in October.
Carbon tracking tool	Retail Banking customers	The carbon tracking feature, developed in collaboration with CoGo to enable personal customers to track their estimated carbon footprint as they spend within our mobile app, went live in our mobile app in November 2021 and means we are now providing to customers the carbon footprint of their monthly spend. As a result, eight million customers now have the option to see their carbon footprint within their NatWest, Royal Bank of Scotland or Ulster Bank Northern Ireland banking app. We are the first bank in Europe to introduce features that will help customers analyse their spend and associated carbon footprint, and understand the impacts of their spending on the environment and how to spend in a way which reduces their carbon footprint.	Since launch in November 2021, 118,862 customers had completed the set-up journey and viewed their carbon tracking score by 31 December 2021.
Retail Banking Customer Website – Climate Change Hub	Existing and potential Retail Banking customers	In 2020 we launched our Climate Change Hub, a public-facing website within our Personal Banking pages to educate customers on climate change and banking, as well as providing links to our green products and supporting resources.  In 2021 we've continued to develop this Hub to help customers do their banking more sustainably. We included solutions like Green Mortgages, going paperless and sustainable investments. In 2021 we also added new articles to help customers build their understanding of important environmental topics, such as carbon footprints and Energy Performance Certificates (EPCs).	Monthly customer visits to the Climate Change Hub increased significantly through the course of 2021. The majority of visits were directly to educational articles, designed to help customers live more sustainably while trying to save money too.
Green Plan	Homebuyers and homeowners	In Q3 2021 we conducted a limited pilot of a residential mortgage educational tool, the Green Plan. The tool enabled pilot participants to enter information about their property and, combining this with EPC data, we offered them tailored suggestions to improve the energy efficiency of their home.	Limited pilot conducted with a small group of customers to help inform how we best support customers with their home energy efficiency.
Green Homes Attitude Tracker	Homebuyers and homeowners	In September 2021 we launched our Green Homes Attitude Tracker, a quarterly survey supported by IHS Markit to track consumer awareness and engagement in the net-zero challenge. The survey helped us gain a deeper understanding of homebuyers' views on environmental features and energy-savings and improvements in their homes.	4,500 individuals provided insight on consumer sentiment in relation to green homes, retrofitting and climate change, to inform on-going strategic business decisions and direction.
Recycled plastic debit and credit cards	Retail Banking customers	In September 2021 NatWest Group announced it will introduce new debit and credit cards, made from 86% recycled PVC (rPVC).	This move is anticipated to save over 50 tonnes of waste annually.



# Accelerating the speed of transition to a net-zero economy continued

Potential Opportunity	Customer	Progress	Impact
<b>Private Banking</b>			
<b>B Corporation (B Corp) status</b>	Coutts customers	In July 2021, Coutts officially became a B Corp, amending its articles of association to require the board of directors to ensure a balance between profit and purpose. To become a B Corp a business must demonstrate the highest standards of social and environmental performance, transparency and accountability, achieving a minimum verified score on the B Impact Assessment (BIA). As well as re-certification every three years, to ensure they continue to meet the BIA's evolving standards, all B Corps must also complete an annual impact report to measure progress.	We scored 83.2 in the BIA – a verified assessment of our environmental and societal performance. This compares to the median score for ordinary businesses of 50.9 and pass mark of 80.
<b>The Coutts Asset Management Centre of Expertise aims to reduce the level of carbon intensity for the equity component of their funds and discretionary portfolios by 25% by end of 2021</b>	Investments – All invested customers	<p>In 2021, the Coutts Asset Management Centre of Expertise reduced the carbon intensity of the equity holdings of all funds and discretionary portfolios, joined the Net Zero Asset Managers Initiative Asset Management and committed to reach net zero emissions across managed investments by 2050. Carbon intensity is calculated as carbon emissions per \$1 million of sales. As of 31 December 2021, this is only measured for equity holdings as data availability is better than for other asset classes. On average, as of 31 December 2021, equity holdings make up 60% of the total assets in all funds and discretionary portfolios. Carbon intensity data is sourced from third party sources, at fund and underlying company level, and is used to calculate the weighted average carbon intensity for all in-scope assets under management. Where external data isn't available, proxies are selected that match the company/fund characteristics.<sup>(2)</sup></p> <p>Reductions compared to a 2019 baseline were due to actions taken within the funds and discretionary portfolios to shift to lower-carbon investments and through engagement with the companies and funds we invest in to encourage them to reduce their carbon emissions. As we work towards the ambition of reducing carbon intensity by 50% across all investments by 2030, we continue to enhance our data availability and expand coverage across all asset classes. As metrics and data for the asset management industry develop, we plan to report these in future to demonstrate progress towards our net-zero ambition, taking into account FCA guidance on TCFD recommendations applicable to the asset management sector.</p> <p>To manage climate-related risks on the asset management portfolio, the Coutts Asset Management Centre of Expertise has also divested from high-impact<sup>(3)</sup> fossil fuels in its Coutts funds managed by BlackRock by excluding any companies that derive more than 5% of their revenue from thermal coal extraction, Arctic oil and gas and tar sands, and more than 25% of revenue from thermal coal energy generation. Following the launch of the BlackRock-managed funds at the end of 2020, we increased our voting activity five-fold and we continue to engage with more than 500 companies in the UK, EU and North America, supported by our stewardship partner EOS at Federated Hermes. We will continue to progress embedding risk management in our asset management portfolio.</p>	<p>The Coutts Asset Management Centre of Expertise reduced the carbon intensity of equity holdings of all funds and discretionary portfolios<sup>(1)</sup> by an average of 38%<sup>(3)</sup> compared with 31 December 2019.</p> <p>This included the Personal Portfolio Funds (the investments for our NatWest Invest and Royal Bank Invest digital investment platforms), which saw a reduction of 50%<sup>(4)</sup> on average.</p> <p>In 2021, we voted on more than 15,000 resolutions and supported 94% of climate-related shareholder resolutions.</p>
<b>Green Mortgages</b>	Coutts customers	<p>We launched our Coutts Green Mortgage product in June 2021, offering customers a discounted arrangement fee for purchasing a more energy efficient home (EPC rating of A or B) or for making improvements to their home to make it more energy efficient (EPC rating C and above).</p> <p>Green Mortgages are available to new and existing clients for new-to-bank securities – typically purchases – against properties with an A or B EPC rating; and for clients renovating their homes within 12 months of completion to EPC rating C and higher.</p>	As at 31 December 2021 we had received 179 applications for Coutts Green Mortgage products. This represented 7.4% of total Coutts mortgage applications in 2021.

1. In 2021, funds and discretionary portfolios represented £27bn or 91% of our assets under management.  
 2. Refer to section 5.8 Cautionary note about climate-related data and methodology challenges and the 'Risk Factors' of the NatWest Group 2021 Annual Report and Accounts.  
 3. External data used in calculations is based on data at 30 September 2021.  
 4. The Coutts Asset Management Centre of Expertise ESG-related exclusion policy includes activities generating high levels of CO<sub>2</sub> emissions compared to the energy produced, or deemed to be inherently unsustainable due to their environmental impact.



3.5.1

# Accelerating the speed of transition to a net-zero economy continued

Potential Opportunity	Customer	Progress	Impact
<b>Commercial Banking</b>			
<b>Carbon tracking tools</b>	Business Banking, Mid and large corporates and institutions.	In March 2021 we announced our intention to work with Microsoft; aiming to help UK businesses better understand their carbon footprint and how they can reduce it. We completed further testing throughout 2021. In 2021 NatWest Group built and designed a pilot carbon tracker app, in collaboration with CoGo. This is to support SMEs in understanding their carbon footprint.	During the research phase of the project with Microsoft, 500 business customers of varying sizes were surveyed to understand challenges in meeting climate ambitions. Based on a survey of 250 businesses, 47% of businesses are creating plans to reduce their footprint, but find measuring and reducing emissions very challenging
<b>Clean energy</b>	Mid and large corporates and institutions	As a leading supporter of renewable energy in the UK, we are determined to play an active role in the transition to net zero, to reduce the effects of climate change and to protect the planet for future generations. To support this ambition, we ran an Energy Switching Pilot from March 2021 to December 2021, which aimed to help our customers find a Green Energy tariff that could save them money and help the environment.	More than 200 customer conversations held as part of the Energy Switching pilot.
<b>Clean buildings</b>	Commercial Banking customers	From January 2021, new minimum standards have been introduced in commercial real estate lending appetite for residential new build lending, which requires properties to achieve a minimum EPC rating of B. In January 2021 we provided an SLL to Nottingham Community Housing Association (NCHA), with a margin discount linked to an environmental KPI and a social KPI. The environmental KPI requires NCHA to improve the energy performance rating of 770 social housing properties, over a four-year period, to an SAP rating of '69' or above. The social KPI target requires NCHA to increase BAME representation across its managers.	£50 million SLL provided to NCHA, including a margin discount linked to achievement of an environmental and a social KPI.
<b>Clean transport</b>	Pan-Bank	In 2021, we launched a collaboration with Octopus Energy, the UK's fastest growing energy technology company, which intends to make it simple for customers and colleagues to move to electric vehicles (EVs). In September 2021, we supported the launch of the EV8 app on both the Apple and Android app stores. The EV8 app helps customers and colleagues understand if transitioning to an EV is the right thing for them. During 2021, Lombard supported the decarbonisation of the public transport sector via the provision of funding for pure battery electric buses. Within the private transport space, despite ongoing shortages and delays within the vehicle supply chain, Lombard Vehicle Solutions increased the number of plug-in hybrid and pure battery electric vehicle deliveries compared with 2020.	1,891 pan-bank enquiries for the Octopus EV proposition through 2021 with 211 installations More than 3,400 EV8 downloads achieved in 2021 with more than 95,000 journeys made while using the app. Funding provided for 27 pure battery electric buses – a 121% year-on-year increase in plug-in hybrid and pure battery electric vehicle deliveries.
<b>Thought leadership and education</b>	Start-ups, scale-ups, SMEs, mid-size corporates.	Thought leadership on climate and sustainability was created via a podcast campaign 'Green Business Builders'. This was hosted by an external partner alongside various climate specialists to inspire business owners on their green growth journeys. The podcast covered topics such as driving sustainable change, offering insights on how to reduce, reuse and rethink waste, the decarbonisation of supply chains and the future of people power. Throughout the year we shared thought leadership insights on climate change, sustainability and COP26. The content focused on challenges and opportunities for start-ups, SMEs, growing businesses and mid-size corporates.	9,681 downloads of the podcasts during 2021 The NatWest Business Hub published 69 articles throughout 2021 across several ESG themes to share knowledge, and support customers.





3.5.1

# Accelerating the speed of transition to a net-zero economy continued

Potential Opportunity	Customer	Progress	Impact
<b>NatWest Markets</b>			
Thought leadership and education	Corporate and institutional customers	<p>NatWest Markets shared insights during the year addressing specific challenges around climate change and related financing with customers and market participants, including rating agencies, regulators, corporates, investors and industry experts.</p> <p>In 2021, NatWest Markets launched a series of bi-monthly ESG bitesize webinars for colleagues covering a range of case studies, product innovations and other pertinent updates.</p> <p>During the year, we were also invited to join a number of working groups and steering committees with industry bodies (see section 3.4), while targeted investor sessions on climate and ESG helped build connectivity and extend thought leadership.</p>	NatWest Markets subject matter experts published 108 articles throughout 2021 across many ESG themes to share knowledge, and 53 events aimed at supporting our customers' learning journeys.
Championing climate-related new product innovation	Corporate and institutional customers	<p>NatWest Markets has established a centre of excellence for climate and ESG in our capital markets business. We have also adopted a 'hub and spoke' model to create an ecosystem across NatWest Markets that aims to help customers achieve their climate ambitions by providing them with leadership and support across financing and risk management.</p> <p>Current activities are centred on the scoping of product development opportunities aimed at producing a comprehensive climate and ESG product suite that transcends customer types. Our performance has been robust, leveraging investor intelligence to advise and structure green, social and sustainable (GSS) bond transactions, as well as sustainability-linked bonds and sustainability-linked loans. In addition, this approach has also been expanded to foreign exchange, derivatives and repo products.</p> <p>2021 saw a significant increase in NatWest Markets Capital Markets business supporting the public sector and housing associations with ESG framework structuring. This valued service helps these customers to develop their own sustainability strategies and align their financing while we work in collaboration as One Bank.</p>	<p>In 2021, NatWest Markets ranked in the top two bookrunners for supporting UK corporate issuers, and in the top two globally for sterling issuance, with their GSS bonds. NWM Group ranked in the top five for supporting Western Europe corporate issuers with their GSS bonds.</p> <p>During 2021 NatWest Markets has structured a number of ESG-linked foreign exchange (FX) hedging agreements and our first ESG repo targeted at green buildings.</p> <p>NatWest Markets continued to support financial institutions who were increasing their GSS issuance as a proportion of their overall funding, acting as bookrunner on 23 transactions in 2021.</p>
Evolving climate data and analytics	Corporate and institutional customers	We have invested in climate data and tools to equip our customer facing teams with the analytics needed to best support business origination and delivery. Given evolving climate and ESG regulations and reporting requirements, both NatWest Group and NatWest Markets utilise these analytics, where available, to support customers' sustainability journeys, maximising their ESG profile relative to ESG ratings and investors' evaluations.	NatWest Markets Climate & ESG Data & Technology teams are working to ensure our customer-facing teams have the necessary climate and ESG analytics to best support their business origination and delivery, as well as credit risk.

3.5.1

# Accelerating the speed of transition to a net-zero economy continued

Potential Opportunity	Customer	Progress	Impact
<b>RBS International</b>			
Green Mortgages	International Retail	In October 2021 we launched a Green Mortgage and a Green buy-to-let Mortgage for properties in the UK. The products reward customers supporting the transition to net zero by offering a lower interest rate for those purchasing a property with an EPC A or B rating.	As at 31 December 2021, we had accepted five new business Green Mortgage applications.
NatWest Trustee and Depository Services ESG Insight Tool	Trustee and Depository Services customers	During 2021 we worked with a specialist services firm to build an ESG insight tool for depository customers. The platform utilises artificial intelligence to augment customer ESG data and provide a timely assessment of a customer's performance against their ESG investment objectives and developing regulatory requirements.	We demonstrated the tool to five customers, seeking their feedback in 2021 to support development.
Sustainability Linked Loans (SLLs)	Non-Personal	In May 2021 we launched bilateral SLLs to support our existing syndicated options for non-personal customers. SLLs offer customers a financial benefit when material and predetermined sustainability performance targets have been met, thereby incentivising them to further align their business activity with addressing the climate challenge.	As at 31 December 2021 we had provided £1.1 billion in SLLs.
Climate Zone	International Retail	Launched in August 2021, the Climate Zone aims to motivate customers to make behavioural changes and raises awareness of climate change for international retail customers. The Climate Zone contains educational content and thought leadership to help customers better understand their environmental impact.	As at 31 December 2021, 762 customers have visited our NatWest International Climate Zone, with another 306 visits to our Isle of Man Climate Zone.
Thought leadership and education	Funds	As the centre of excellence for funds financing, RBS International has provided thought leadership through ESG articles, a new ESG podcast and multiple customer events. A new 'Your Sustainable Banking Partner' page was created on our external website to bring together insights and details of sustainable financing options for our customers. In addition, the first NatWest Group ESG-specific podcast, 'A Just Transition', was launched to bring our funds customers access to discussions between our ESG Lead and industry leaders, supporting their net zero transition.	As at 31 December 2021, the podcast had attracted 468 downloads.





## 3.5.1 Accelerating the speed of transition to a net-zero economy continued

Work is on-going to embed the management of climate-related risks and opportunities within our businesses. NatWest Group offers services, funding and financing solutions to customers, to help them achieve their climate and sustainability ambitions. The table below summarises the products and services offered to our range of customers.

Personal customers	Non-Personal Customers	
	Start-ups, micro SMEs, small SMEs and high growth	Mid and large corporates and institutions
Residential and buy-to-let Green Mortgages	Enhanced pricing frameworks and capital allocation processes	Green and transition bonds
Carbon footprint tracking and EV8 Switch apps	Carbon tracking tools	Green and transition private placements
Octopus Energy collaboration		Sustainability-linked bonds and loans
Sustainable branch hubs	Green loans	Green commercial paper
Financial health check support	Sustainability-Linked Loans	Green securitisation
Climate Change Hub website	Lombard Vehicle Services	ESG-linked derivatives and FX agreements
Recycled plastic debit and credit cards		Green hybrids
RBSI Climate Zone website		Green liability management
		Green repos



According to recent data, residential properties represent almost a sixth of the UK’s greenhouse gas emissions.

Research found that 70% of our customers are concerned about climate change, but unsure about how to reduce their carbon footprint.

So, to help our customers make greener choices, we launched our green mortgage: a product which offers a discounted interest rate to customers purchasing a property with an Energy Performance Certificate rating of A or B.

We know our customers are increasingly interested in purchasing energy efficient homes and by offering those customers a lower mortgage rate, we want to have a positive impact on the environment.

The success of our green mortgages has this year led to the roll out of green re-mortgages and tailored green buy-to-let mortgages, which similarly offer preferential interest

rates to new or existing customers who are looking to secure lending for an energy efficient property.

Our green mortgage products support our commitment to help customers become more energy efficient with an ambition that 50% of the bank’s mortgage book is at or above EPC C by 2030.

It’s a commitment we take very seriously. That’s why we launched the Sustainable Homes and Buildings Coalition in collaboration with partners to explore solutions to the UK housing issue, and we were the first high street bank in the UK to become an adopter of the Green Finance Institute’s Green Home Finance Principles.

**15%** of net UK greenhouse gas emissions were estimated to originate from the residential housing sector in 2018.

(Source: Department for Business, Energy and Industrial Strategy)



## 3.5.2 Helping to end the most harmful activity

As part of our climate ambition announced in February 2020, we stated that we planned:

- to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a Credible Transition Plan in line with the 2015 Paris Agreement in place by end of 2021;
- a full phase-out from thermal and lignite coal by 2030; and
- to stop lending and underwriting to major oil and gas producers unless they had a Credible Transition Plan aligned with the 2015 Paris Agreement in place by the end of 2021.

Since 31 December 2020, our oil and gas sector exposure<sup>(1)</sup> has reduced by £878 million (31 December 2021 £3,254 million<sup>(\*)</sup>; 31 December 2020 £4,132 million) principally due to net repayments in the course of normal business and the tighter lending criteria now in place for this sector. This brings the total reduction in oil and gas sector exposure since 31 December 2019 to £1,653 million (31 December 2019 £4,907 million).

### Our Credible Transition Plan assessments

Based upon the above commitments, we identified large corporate customers with an aggregate lending exposure of £1,428 million at 31 December 2021 (31 December 2020: £1,965 million) as requiring Credible Transition Plan (CTP) assessment by the end of 2021. This included oil and gas majors with aggregate lending exposure of £814 million<sup>(\*)</sup> at 31 December 2021 (31 December 2020: £1,320 million) and also customers with more than 15% of their activities related to coal (thermal and lignite) engaged in mining, power generation and trading activities with aggregate lending exposure of £614 million<sup>(\*)</sup> at 31 December 2021 (31 December 2020: £645 million).

Our CTP assessment involved three components summarised below. For a customer’s transition plan to be assessed as credible and in line with the 2015 Paris Agreement, we applied the following criteria:

CTP assessment criteria		
<b>A</b>	<b>A quantitative assessment using an independent third-party proprietary model to assess alignment with the 2015 Paris Agreement</b>	This model calculates a temperature alignment score by: <ul style="list-style-type: none"> <li>– use of climate scenario temperature alignment model to assess whether a customer’s transition plans and resulting projections for Scope 1,2 and 3 emissions are consistent with temperature scenarios that are aligned to the goals of the 2015 Paris Agreement.</li> <li>– To calculate temperature alignment, climate outcome scenarios were used to model future energy production. Emission projections were compared against sector and geography specific pathways under those scenarios. By interpolating/extrapolating against the climate scenario outcomes, an assessment was made of the temperature alignment score for the company. This is in line with the Intergovernmental Panel on Climate Change’s report as well as our commitment as one of the founding members of the Net Zero Banking Alliance.</li> </ul>
<b>B</b>	<b>A credibility assessment</b>	A credibility assessment of customer transition plans which considered both public and client information and included use of a standardised scorecard which analysed factors such as executive and management incentives, investments to date and future investment plans in decarbonisation and transition technologies, as well as climate scenarios used in strategy development and information on how financial performance will evolve.
<b>C</b>	<b>Management review and assessment</b>	Approval by the NatWest Group Reputation Risk Committee (GRR) of outcomes of the quantitative and credibility assessments as well as customers’ forward-looking strategy and alignment to NatWest Group’s environmental, social and ethical (ESE) policies, and the impact of current and expected legislative requirements and policy developments on customers’ strategies.

1. Exposure is Loans to customers accounted at amortised cost and FVOCI plus related Off-balance sheet items including loan commitments and contingent liabilities.

(\*) Within the scope of EY assurance. Refer to page 1.

## Helping to end the most harmful activity continued

### CTP assessment outcome

Thermal and lignite coal customers with exposures amounting to £437 million at 31 December 2021 (31 December 2020 £439 million) did not have a CTP aligned with the 2015 Paris Agreement. As a result, we will stop lending and underwriting to these customers, including stopping renewal, extension or refinancing of any existing commitments at 31 December 2021. We will fully exit these customer relationships as soon as is practicable.

Oil and gas customers with exposures amounting to £530 million at 31 December 2021 (31 December 2020 £751 million) did not have a CTP aligned with the 2015 Paris Agreement. As a result, we will stop lending and underwriting to these customers as soon as practicable, including stopping renewal, extension or refinancing of any existing commitments at 31 December 2021. In our continued discussions with these customers, we understand that they are investing in activities to support transition towards net zero. As a responsible business and in recognition of NatWest Group role's in financing the transition, we may provide lending and underwriting to these customers where such lending and underwriting is limited to activities that are aligned to our CSFI criteria, where the proceeds of such financing are linked to the development of the assets and activities referenced in the CSFI criteria. Assessment of whether a transaction meets the CSFI criteria will be carried out as part of the credit approval process.

Customers with exposures amounting to £461 million at 31 December 2021, of which oil and gas £284 million; thermal and lignite coal: £177 million (31 December 2020: £775 million, of which oil and gas £569 million; thermal and lignite coal: £206 million) will be retained, provided they comply with our ESE policies, which, as noted below, we have reviewed and tightened.

We will continue to monitor customers' progress against their published transition plan or strategy annually, as part of the environmental, social and ethical (ESE) risk assessment process.

In addition to performing CTP assessments, we have also tightened our ESE policies to prohibit new lending and underwriting to coal customers. From November 2021, we will have no new exposure to thermal and lignite coal (coal). We have prohibited:

- new customer relationships with corporates who explore for, extract or produce coal, or that operate unabated coal power plants;
- existing customers who are increasing coal mining activity by exploring for new coal, developing new coal mines or increasing thermal coal production; and,
- all project financing (including refinancing) related to coal mining activity by exploring for new coal, developing new coal mines and coal infrastructure.

We intend to:

- By 1 October 2024: phase out of coal for UK and non-UK customers who have UK coal production, coal fired generation and coal infrastructure.
- By 1 January 2030: full phase out of coal.

As a result, we will stop lending and underwriting to these customers, including stopping renewal, extension or refinancing of any existing commitments as at dates mentioned above, as they mature. We will fully exit these customer relationships as soon as is practicable.

While the oil and gas sector continues to play a critical role in UK energy security and the transition to clean energy, NatWest Group recognises the significant climate, environmental and social risks associated with it. As a result, we have tightened our oil and gas ESE policy:

From 1 January 2022, we will only continue to support upstream oil and gas companies:

- where the majority of their assets being financed are based in the UK (onshore or offshore UK Continental shelf); and,
- where those companies report to us the overall emissions of the assets they operate by the end of 2023.

3.5.3

## Championing climate solutions

One of the largest climate-related opportunities we have identified is to play a leading role in championing climate solutions by supporting customers through Climate and Sustainable Funding and Financing. The table below summarises our ambition and 2021 progress.

Initiative	Customer	Progress	Impact
We have a target to provide £100 billion Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.	Non-personal	<p>During H1 2021 we exceeded our 2020-21 target of providing an additional £20 billion Climate and Sustainable Funding and Financing, bringing our delivery against this target to £21.5 billion.</p> <p>We also announced a target to provide an additional £100 billion Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.</p> <p>Refer to section 5.3 for further details.</p>	<p>Between 1 July 2021 and 31 December 2021 NatWest Group completed £8.1 billion Climate and Sustainable Funding and Financing, which will contribute towards the £100 billion target.</p> <p>This comprised £3.3 billion in NatWest Markets, £2.7 billion in Commercial Banking, £1.1 billion in Retail Banking and £0.9 billion in RBS International.</p>

## Powering ahead

### Making it easier to own an electric vehicle

With transport accounting for more than a quarter of the UK's carbon emissions, we know how important it is for people to make this change.

That is why NatWest Group teamed up with Octopus Energy in 2021 to offer a tailored package that improves the cost and efficiency of owning and running an electric vehicle.

This comprehensive solution is available to NatWest Group's Retail, Commercial and Private Banking customers and includes all the infrastructure and technology needed to switch to electric vehicles. The offering is the first time a major bank and a renewable energy supplier have joined forces to provide these benefits and includes:

- discounted electric vehicle charging technology and installation;
- access to innovative and green electricity tariffs and smart meters;
- Free access to Octopus Energy's 'Electric Juice network' – the UK's largest (coverage) electric vehicle roaming service, with all costs appearing on their energy bill;
- solar and battery technology to complement the core charging infrastructure offer;
- and a potential grid upgrade and access to fleet management software if required.

Since February 2021, our collaboration with Octopus Energy has supported 90 customers and 121 colleagues with the installation of discounted electric vehicle charging infrastructure.

We're aware that range anxiety and access to local charging infrastructure remain key concerns for many potential electric vehicle customers. That's why we also teamed up with EV8 Technologies, through sponsorship of the start-up's new EV8 Switch app.

Designed to build driver confidence around how an EV could work for their lifestyle and driving habits, the app analyses a minimum of 14 days' worth of real-world driving data to provide independent, personalised insights. Since September 2021, the app had been downloaded 3,470 times, with 2,840 users analysing nearly one million miles of travel to help inform their next car purchase.

With this kind of practical support in accessing electric vehicle charging technology, we're making it easier and more affordable for our customers to make the switch.







3.5.4

## Embedding climate into our culture and decision-making

To determine how climate-related risks and opportunities impact our strategy, business and financial planning over the short, medium and long term, we recognise that it is important to embed considerations of climate into our culture and decision-making. The table below summarises our ambition and progress during 2021.

Ambition	Progress
Each year, we plan to include targets for executive remuneration that reflect our latest climate ambitions.	Climate considerations have been included in senior executive remuneration since 2020. During 2021, we added performance against climate targets as part of the bonus pool assessment for our wider workforce, recognising its central role in our strategy. Refer to the Directors' Remuneration Report in the 2021 Annual Report and Accounts for further details.
We have an ambition to at least halve the climate impact of our financing activity by 2030 and align with the 2015 Paris Agreement. To do this, we plan to quantify our climate impact and set sector-specific targets by the end of 2022.	During 2021, we worked on enhancing our capabilities across additional corporate carbon intensive sectors. In addition, we extended the scope of emissions calculation for the Oil and Gas sector beyond extraction activities covered in 2020. We have now analysed 52% of our loans and investment portfolio based on our 2019 balance sheet and estimated financed emissions for a further eight high carbon emitting sectors. This builds upon progress in 2020, where we developed financed emissions estimates for four sectors.
We plan to continue the integration of the financial and non-financial risks arising from climate change into our EWRMF.	In February 2021 climate risk was formally incorporated into the NatWest Group risk directory as a principal risk.  NatWest Group has adopted a dual approach to climate risk management. We recognise climate risk as both a principal risk – defined as a level one risk under our EWRMF – as well as a causal factor affecting a number of other closely correlated financial and non-financial risks. Throughout 2021 NatWest Group continued to embed this dual approach, establishing a climate risk framework and making amendments to existing risk frameworks.

## Sustainable Futures Network

NatWest Group's Sustainable Futures Network supports colleagues to embed sustainability at home and at work.

Founded in September 2019 the employee-led network now has 2,600 members and representation from all major jurisdictions where we operate. In 2021 the Sustainable Futures Network was shortlisted as the 'Business Green Employee Engagement Campaign of the Year' and in November, we were announced as finalists in the 'Employee engagement and behaviour change initiative of the year' category in the annual edie Sustainability Leaders Awards.

The network connects and enables our passionate colleagues to deliver more, faster and with greater impact as we work to deliver on NatWest Group's purpose and climate targets.

In 2021, the Sustainable Futures Network had two key areas of focus:

### Sustainability Champions

As at 31 December 2021, NatWest Group had a growing network of 350 sustainability champions.

These colleagues have made a commitment to engage, educate and empower colleagues and customers to embed sustainability at home and at work.

### Giki Zero Pro

The most asked question of the Sustainable Futures Network is how colleagues can reduce their environmental footprint. In response, the network has launched a collaboration with Giki Zero Pro, a sustainability tool that provides a personalised journey to reducing colleagues' environmental impact.





3.5.4

# Climate-related education

Colleague and customer education has been a key focus in 2021 to further embed climate into our culture

We have focused on three key education priorities throughout 2021 to support the achievement of our climate ambition:

1. **Providing easily accessible climate awareness content for colleagues, customers and communities through our NatWest Learning academies**
2. **Equip colleagues in priority and customer facing roles with the necessary climate capability to do their job, support customers transition and meet regulatory requirements**
3. **Inspire climate action and innovation through learning, thought leadership and global outreach**

The evolving Climate Education model is based on four key groups; Core, Common, Specialist and External learning, driving a One Bank approach to identify and assess capability needs, determine the best approach and deliver the most relevant learning to serve the needs of colleagues, customers and communities.

### Core

Scalable learning to drive awareness across all colleagues

- We launched a new Climate Change Awareness module in March, in collaboration with the University of Edinburgh Centre for Business, Climate Change and Sustainability (UoE B-CCaS). Over 12,000 colleagues completed this module in 2021, helping them to understand the impacts of climate change and the positive actions they can take.
- Following an initial pilot in Commercial Banking, we rolled out bank-wide leader led toolkits in multiple populations in 2021 to support leaders to run climate discussion sessions within their teams to broaden climate knowledge and confidence.
- Colleagues also have access to climate change learning materials through the NatWest Group Academy's dedicated climate pages, including modules related to 'What is Climate Change' and 'What NatWest Group is doing to tackle climate change.'
- Over 5,000 colleagues were upskilled through the employee-led Sustainable Futures Network in 2021, including Climate Change 101 and the newly launched Biodiversity 101 training, which supports our central education strategy to embed the climate knowledge and capability at a grass roots level.

### Common

Cohort approach addressing common needs across multiple populations

- Training was provided for 494 leaders across 2020 and 2021 through the Cambridge Institute of Sustainable Leadership (CISL) with an average module completion rate of 74%. The programme aims to enhance leaders knowledge and skills to help realise NatWest Group's climate ambition, the financial service industry, and the wider economy.
- A bespoke Climate Change Transformation Programme was provided for 1,007 priority and customer facing colleagues during 2021, designed in collaboration UoE B-CCaS. Developed specifically for NatWest Group to build climate capability through blended self-paced exercises and recorded discussions from a range of academics, all experts in their field. 85% of those that completed the programme were confident 'knowing how to respond and make decisions on climate change impacts within the organisation.' compared to 32% at the start of the programme.
- To help embed climate risk knowledge across risk management colleagues, NatWest Group delivered climate-specific learning with a mix of mandatory and optional content. In 2021 this included training on Paris alignment, CBES and climate TAS changes.

### Specialist

Priority areas supported through bespoke learning

- We launched a sector specific Agriculture training programme, in collaboration with the UoE B-CCaS and Nourish Scotland, supporting 182 relationship managers and risk colleagues to build knowledge and confidence to have effective customer conversations to transition to a net-zero economy.
- Further sector specialist programmes focused on Commercial Real Estate, Retail & Leisure, and Manufacturing will be delivered in early 2022 to continue to support customer-facing roles.
- 185 colleagues, predominantly in front-line and risk roles have undertaken professional qualifications in green and sustainable finance and climate-related risk through the Chartered Banker Institute in 2021.
- To support the embedding of climate into the credit assessment process, a series of climate TAS webinars were delivered and made mandatory for relevant first and second line colleagues.
- Targeted digital training on responsible investing delivered to over 1,700 colleagues in Private Banking.

### External

Supporting customers, communities and youth education

- We launched Learning with NatWest/Royal Bank, external learning academies in November 2021 to support customers and communities, including climate change awareness content educating users on the basics of climate change.
- As part of our external learning offerings, we also launched four new climate modules focused on sustainable business through the Business Builder proposition helping to remove barriers to early stage entrepreneurs.
- As a principal partner of COP26, NatWest Group's MoneySense programme joined forces with the popular card game Top Trumps for the Climate Savers competition for both pupils and teachers. 26 winning pupils had their designs made into a Climate Savers Top Trumps deck that was showcased at COP26. The three winning schools also received a total of £26,000 towards a sustainability project.

Regular updates will continue to be provided to colleagues and customers through ongoing communications and training during 2022 to further embed the training provided in 2020 and 2021 to ensure all colleagues maintain climate awareness and that our leaders and priority role holders are equipped to drive advocacy and support colleagues and customers on climate-related matters.



3.5.5

# Net-zero emissions for our operational value chain

The table below details ambitions to reduce the climate impact of our own operations<sup>(1)</sup> and progress during 2021.

Ambition	Progress
We have a target to reduce our direct <sup>(2)</sup> own operations carbon footprint by 50% by 2025, against a 2019 baseline. We plan to reduce the carbon footprint for our wider operational value chain by 50% by 2030, against a 2019 baseline, and achieve net zero by 2050.	During 2021 <sup>(3)</sup> , we reduced our direct own operations carbon footprint 46% against 2019 baseline. We plan to continue making significant emission reductions within our own operations, alongside investments to mitigate GHG emissions through carbon removal projects, programmes and solutions that provide benefits to climate, especially those that generate additional co-benefits for people and nature, in line with SBTi guidance <sup>(4)</sup> .
We plan to use only renewable electricity in our direct own global operations by 2025 (RE100).	In 2021 we achieved our interim target of 90% renewable electricity coverage, consuming 97% renewable electricity across our global operations.  This was achieved through a combination of purchasing 100% of our UK and RoI electricity from renewable sources using green tariffs, and purchasing Renewable Energy Certificates (RECs) for our landlord-supplied properties in India, Europe and the UK, where we are currently unable to specify a requirement for renewable electricity.  Going forward, and in order to reach our ambition of 100% global renewable electricity by 2025, we intend to work with our principal landlords to advocate for renewable electricity provision for all properties.
We plan to install electric vehicle chargers in 15% of car park spaces across our UK portfolio by 2030 (EV100)	During 2021, project work was carried out to install charge point connections across our locations including the largest workplace charger installation in the UK at our Gogarburn headquarters in Edinburgh, bringing the total number of managed service connections to 289 at 31 December 2021. Charging sessions are powered by 100% renewable electricity and offered to drivers at cost price.
We plan to upgrade our fleet of around 300 vehicles to electric models by 2025 (EV100).	During 2021, we reviewed eligibility for our leased car fleet. Further, four electric vehicles have been ordered as part of a pilot that includes the installation of home charging equipment. Learning from the pilot process, the scheme will open to all job need car drivers upon lease expiry.
We plan to improve our energy productivity 40% by 2025 against a 2015 baseline (EP100).	We have increased energy productivity (FTE per GWh) by 36% since 2015 and are therefore on track for our EP100 ambition. Our aim is to maintain the improvements following a safe return to office. Across our global portfolio, electricity consumption decreased by 11% and natural gas consumption increased by 12% when compared to 2020.

1. Refer to section 5.6 for further details on NatWest Group own operational footprint, including the emissions impact of working from home due to COVID-19.
2. NatWest Group defines direct own operations as our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It therefore excludes upstream and downstream emissions from our value chain.
3. Our own operational footprint reporting year runs from October 2020 to September 2021.
4. In October 2021 the SBTi released the 'SBTi Corporate Net-Zero Standard', the world's first net zero framework which encapsulates the full value chain of Scope 3 and deep decarbonisation targets.



3.6

## Impact of climate-related risks and opportunities on the financial planning process

During 2021, we worked to incorporate climate in to the financial planning process by developing our first carbon plan. This work progressed alongside our financial planning process in the second half of the year and included an assessment of the climate impact of:

1. lending and investment changes incorporated in the financial plan over the next five years,
2. current and planned climate-related opportunities including, but not limited to, our commitment to provide £100 billion Climate and Sustainable Funding and Financing and our green mortgage products.

To acknowledge our dependence on policies, technology developments and customer behaviour, and the related risks, we also assessed current and expected policies based on the Climate Change Committee’s Sixth Carbon Budget published in 2020 and any potential impacts on our climate ambition. Refer to section 5.7 for details on policy and technology changes with the potential to support transition by sector.

We will continue to develop capabilities to measure the impact of climate-related risks and opportunities arising from NatWest Group actions and also external factors. Our work on assessing emissions from our direct own operations and on our lending and investments is noted in sections 5.6 and 5.7. Section 5.7 also outlines current estimates of 2030 emissions intensities for sectors analysed and consequently the level of emissions reductions that may be required, acknowledging the uncertainties arising from dependence on customer behaviour changes, their transition plans as well as policy and technology developments.

In 2022, we plan to further enhance carbon planning capability to support development of climate transition plans to measure and track our progress towards. Our transition plan will evolve in coming years as, for example, our capabilities and data develop. We plan to publish our climate transition plan in future reports, starting with our initial transition plan in our 2022 climate report.

## Making a difference

Driving sustainability through responsible investment



We should only invest in a world in which we want to live. At Coutts, we understand that sustainability is synonymous with prudent investing because it holds the key to creating long-term value.

It’s why we set an ambition to reach net-zero emissions across our managed investments by 2050 and we are proud to have joined the Net Zero Asset Managers Initiative: a collaboration representing an estimated \$57 trillion of assets under management.

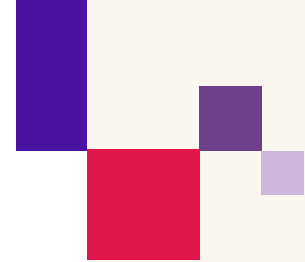
In partnership with NatWest Markets, we supported the UK Government’s green gilts issuance in 2021, acquiring approximately £450 million in bonds, earmarked to support the UK’s net zero plans. We also redesigned our Coutts ESG Insights funds, managed by BlackRock, to concentrate on investments with a clear pathway to net zero. This has paved the way for our NatWest and Royal Bank Invest

platforms to focus at least 50% of fund allocations on investments that are on a net zero trajectory.

We use our voice to champion sustainable policies in the companies in which we invest. Since 2020 we have increased voting activity fivefold, from 2,500 to more than 14,000 resolutions in 2021.

The result is a purpose-led responsible investment strategy that has won several industry awards and was recognised as best-in-class in the Financial Reporting Council’s Effective Stewardship Reporting review.

Crucial to our sustainability journey is how we can inspire and enable our customers on theirs.



3.7

# Scenarios used to inform strategy and financial planning

3.7.1

## Introduction

During 2021, NatWest Group developed its scenario analysis capabilities and deepened its understanding of climate-related risks and opportunities. We have also taken further steps to translate these insights into tangible actions aligned with our climate ambition, that will enable NatWest Group and its customers to mitigate climate-related risks and take advantage of the opportunities that the transition to net zero will create.

NatWest Group’s climate scenario analysis capabilities were strengthened in 2021 through our participation in the CBES exercise. This was a mandatory climate stress testing exercise involving major UK banks and insurers. In 2020, NatWest Group carried out preparatory climate scenario analysis focusing on a sample of corporate and retail customers, and significantly built on this through an additional preparatory exercise in Q1 2021 with increased coverage across the balance sheet. We also directly engaged over 350 of our largest customers to gather additional climate data for incorporation into the analysis, deepening our understanding of customers’ climate-related risks and opportunities and their strategic responses to them.

Scenario analysis allows NatWest Group to test a range of plausible future climate pathways and understand the nature and magnitude of the risks they present. The purpose of scenario analysis is not to forecast the future but to understand and prepare to manage risks and opportunities that could arise. Although our use of scenario analysis has strengthened during 2021, there are limitations to the modelling methodology and available data, as covered in section 3.7.4.

This section draws on insights that were developed through scenario analysis in 2021, including during our participation in the CBES exercise, but with a focus on the insights, implications for customers and resulting capability enhancements. It is NatWest Group’s understanding that the Bank of England intends to publish insights from the CBES exercise in Q2 2022, possibly including aggregated quantitative results. As a result, we have not included any quantitative results from the CBES exercise in this section.

The analysis has been carried out in partnership with a third-party expert, drawing on their proprietary climate risk model along with our own credit risk models to understand the implications of different climate scenarios for credit risk metrics.

1. Bank of England, 2021 – [Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change](#)  
 2. Network for Greening the Financial System, 2021 – [NGFS Climate Scenarios for central banks and supervisors \(ngfs\\_climate\\_scenarios\\_phase2\\_june2021.pdf\)](#)

3.7.2

## Methodology

NatWest Group has applied three scenarios published by the Bank of England for its CBES exercise as the foundation for its scenario analysis.<sup>(1)</sup> These in turn are based on scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in June 2021<sup>(2)</sup>. The three scenarios each represent different possible climate futures over a 30 year horizon, encompassing the global energy system and economy and implying differing levels of physical and transition risks for NatWest Group and its counterparties. The three scenarios assessed were:

No Additional Action:	Early Action:	Late Action:
<p>This scenario primarily explores physical risks from climate change and assumes that there are no further climate policies introduced beyond those already implemented. The absence of transition policies and associated emissions reduction leads to an increase in the concentration of greenhouse gases in the atmosphere, resulting in an expected increase in global temperatures of over 3°C by 2050 and increased physical risks. To test more severe physical risks, this scenario accelerates the temperature pathway by 30 years, and is based on the 90th percentile of the projected distribution of warming outcomes implied by climate models. As a result, the frequency and severity of extreme weather events such as flooding and tropical cyclones increases, and there are chronic changes in labour and land productivity.</p>	<p>This scenario assumes the increase in global temperature is limited to under 2.0°C by 2050 as a result of stringent climate policies and innovation that start immediately in 2021. Carbon prices increase steadily over the period from 2021 to 2050, which drives significant decarbonisation. Coal use falls by 98% between 2021 and 2050 in this scenario, and the share of low-carbon energy in the global energy mix increases from 17% to 73% over the same period. As a result, global CO<sub>2</sub> emissions reach net zero around 2050, and some jurisdictions such as the US, EU, UK and Japan reach net zero for all greenhouse gases.</p>	<p>Like the Early Action scenario, this scenario assumes that strong climate policies successfully limit warming: the increase in global temperature is limited to under 2.0°C by 2100. However, in the Late Action scenario, decisive policy action on climate is delayed until 2031. This means that the transition to net zero happens in a shorter time period in this scenario than in Early Action (two decades rather than three), leading to a higher level of transition risk during this period. Rapid and disorderly transition leads to a recession in the early 2030s. Carbon prices increase rapidly from 2031 to 2050, and this is enough to achieve significant reductions in emissions: global greenhouse gas emissions fall by 80% between 2030 and 2050 in this scenario.</p>



### 3.7.2 Methodology (continued)

The three climate scenarios are assessed against a hypothetical baseline scenario that assumes no increase in physical or transition risk through the scenario period. The table below shows key physical and transition variables for the scenarios selected.

Year	Unit	No Additional Action			Early Action			Late Action		
		2030	2040	2050	2030	2040	2050	2030	2040	2050
Expected temperature rise relative to pre-industrial levels <sup>(1)</sup> °C		+2.8	+2.9	+3.3	+1.4	+1.7	+1.8	+1.4	+1.7	+1.8
Absolute values				Relative to No Additional Action						
Greenhouse gas emissions <sup>(2)</sup> (Kyoto Gases <sup>(3)</sup> )										
	Gt CO <sub>2</sub> -eq/year	59	60	60	-30	-43	-50	0	-36	-48
	Carbon dioxide emissions	43	43	42	-24	-35	-41	0	-29	-39
	Carbon price <sup>^(4)</sup>	3	3	4	+220	+440	+800	0	+390	+740
	Oil demand <sup>^</sup>	90	100	90	-10	-40	-50	0	-20	-50
	Gas demand <sup>^</sup>	3,800	4,000	4,000	-1,200	-2,500	-3,000	0	-2,200	-3,200
	Coal demand <sup>^</sup>	5,600	5,500	6,000	-4,800	-5,400	-5,900	0	-5,300	-5,900
	Electricity demand <sup>^</sup>	35,800	42,900	48,700	-1,800	+6,000	+10,700	0	+500	+11,300

1. In line with CBES assumptions the Late Action pathway was used for the Early Action scenario, and temperature rise was accelerated by 30 years in the No Additional Action scenario.
  2. Emissions generated from the economy including agriculture, forestry, and other land use. Note these values are gross emissions only, hence do not include offsetting impacts which bring net emissions under Early Action/Late Action to zero by 2050.
  3. Kyoto gases comprise carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), F-gases (hydrofluorocarbons and perfluorocarbons) and sulphur hexafluoride (SF<sub>6</sub>).
  4. NGFS scenarios include geographically differentiated carbon prices, value shown is an average.
- Source: NGFS, noting figures denoted with ^ have been rounded to the nearest ten or hundred.

### 3.7.3 Modelling approach

NatWest Group used the three CBES scenarios to carry out bottom-up counterparty-level analysis of climate-related risks for a substantial portion of the portfolio. Following further testing, the analysis was expanded to meet the CBES requirements in 2021. Counterparties that could not be modelled using the bottom-up approach were modelled using top-down methodologies, for example Gross Value Added (GVA) pathways for corporate exposures, giving total coverage of NatWest Group's retail and corporate lending portfolios.

#### Corporate counterparties

Within our corporate lending portfolio, the table below shows climate-related risks and opportunities identified for corporates modelled across the three climate scenarios shown above.

Risk type	Impact channel	Description of risks modelled for corporates
Transition risks	Demand destruction	Decline in demand arising from changes in consumption patterns that are driven by consumers facing carbon costs when consuming a firm's products or associated products (both competing and complementary).
	Demand creation	Increases in demand arising from changes in consumption patterns that are driven by consumers facing carbon costs when consuming a firm's products or associated products (both competing and complementary).
	Direct carbon costs	Direct carbon costs on a company's Scope 1 and 2 emissions relating to its activities. Emissions intensive activities experience the largest increase in production costs from carbon pricing.
	Abatement <sup>(1)</sup>	The ability of a firm to mitigate carbon costs by adopting technologies capable of reducing or eliminating emissions from its activities.
Physical risks	Competition	The ability of a firm to pass through rising production costs to consumers. The amount of costs that can be passed through to consumers depends on the structure of the market a firm is active in and how exposed a firm is to climate impacts compared to competitors.
	Acute impacts	Rising sea levels and changes in precipitation patterns over time lead to changes in flooding patterns and frequency for river flooding, coastal flooding and tropical cyclones.
	Chronic impacts	Long-term effects such as heat waves and changes in precipitation have an impact on labour productivity and agricultural yields.
	Adaptation <sup>(1)</sup>	The ability of firms to adapt to intensifying physical risks by taking actions to mitigate the impacts of more extreme weather and higher temperatures.

1. Abatement and adaptation were not modelled by banks under the CBES scenarios, in line with guidance for the exercise. NatWest Group has retained the ability to model these impact channels and has completed sensitivities against the CBES exercise with these impact channels modelled.



### 3.7.3 Modelling approach continued

#### Corporate counterparties continued

We translated each scenario into economic impacts, taking both physical and transition risks into account. This was done by modelling granular transition and physical risk shocks and integrating these into a microeconomic and financial model of firm-level impacts. The model also accounted for competitive market dynamics within sectors and demand creation/destruction. Changes in credit risk for each customer were determined by converting firm-level impacts into projected probability of default and also incorporating existing macroeconomic models that captured indirect impacts of the scenario on the wider economy such as GDP and unemployment.

To support NatWest Group’s analytics capability, we collated climate-related data on our customers, including retrieving data from public sources and purchasing data from third parties as well as engaging directly with over 350 customers in a wider variety of sectors. Through this engagement we collected data on their balance sheet, detailed revenue segmentation, geographic location of key assets, emissions reduction targets, and climate risk management policies, which were incorporated into the credit risk modelling process where applicable. This was particularly important for our non-listed customers, for whom there were fewer publicly available sources of information e.g. less frequent disclosure of climate-related data.

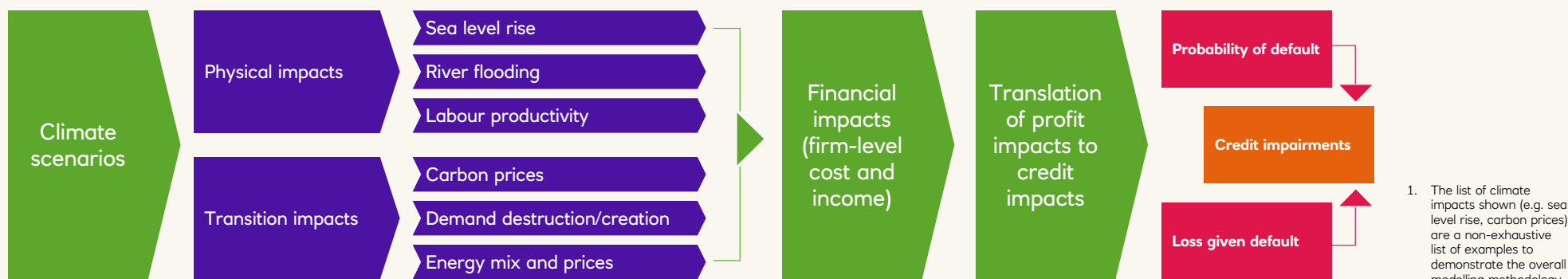
This data enhanced our understanding of our counterparties’ vulnerabilities and approaches to managing climate-related risks and helped us to assess which counterparties are most prepared for the transition to net zero. These counterparty transition plans were not included in the CBES scenario analysis, in line with the relevant guidance on permissible counterparty adaptation and abatement. This provided a conservative view that is well-suited to stress testing for risk identification and management purposes, given the uncertainty around the successful execution of counterparty transition plans. However, we did conduct a

sensitivity run, which included the largest counterparties’ strategic adaptation plans. This enabled a comparison of impacts that those plans could have, if successfully implemented.

While the modelling approach captured a broad set of climate-related risk channels and provided valuable insights, there were limitations to the methodology and underlying data. The scenarios used encompassed a broad range of possible climate futures, but did not include the full range of possible future transition pathways or temperature pathways. They were also based on specific socioeconomic, technological, and other assumptions which greatly influence the results. The quality of climate-related data, including greenhouse gas emissions data, was varied, and required the use of sector averages instead of company-reported data in some places. This is improving over time as company disclosures and climate datasets improve. Detailed data on companies’ revenues from ‘green’ activities are also not comprehensively available at present. This limits the ability to capture company exposure to the demand creation channel. Initiatives such as the EU Taxonomy for Sustainable Activities should make such data more available over time.

The agriculture and financial institutions sectors have characteristics that mean that the nature of their exposure to climate-related risk, and the data needed to evaluate it, differed from other sectors and this posed specific challenges for modelling. For example, the majority of financial institutions’ climate risk exposure comes not from their own activities and operations, but indirectly through their exposure to counterparties. Similarly, for the agriculture sector there is insufficient availability of data on the counterparties’ emissions and revenue segmentation to produce robust counterparty level analysis. As a result, we developed sector specific simplified methodologies for these sectors, aligned to the corporate methodology where appropriate. Similar to our corporate counterparties, the methodology for these sectors will improve as underlying data availability, assumptions, and methodologies improve.

Simplified overview of modelling methodology for corporate counterparties<sup>(1)</sup>





### 3.7.3 Modelling approach continued

#### Commercial real estate and retail mortgages modelling approach

NatWest Group used a modelling approach that captured the most significant transition and physical risks for its UK commercial real estate and retail mortgage portfolios. The key physical risks for UK buildings are flooding (encompassing coastal, fluvial and surface flooding) and subsidence. Higher global mean temperatures are expected to increase the frequency and severity of flooding and the severity of subsidence. Other physical hazards such as tropical cyclones were deemed not to be material for this UK analysis. The key transition risks identified for commercial real estate and residential mortgage portfolios relate to minimum energy efficiency standards for properties and changes in gas and electricity prices resulting from higher carbon pricing.

Our starting point for modelling climate-related risks for these portfolios are the three climate scenarios, each of which includes a trajectory of the key model inputs. The key scenario inputs are energy prices, emissions over time, and an associated change in global temperature. Additional property-level inputs for real estate modelling include current EPC band, maximum potential EPC band and property address. For physical risk, flood risk is modelled at the property level while subsidence risk is modelled at the regional level. Transition risk is modelled at the property level.

To model the impact of these climate-related risks on loans secured against property, we used a discounted cash-flow asset valuation model. Increases in costs associated with a property such as an increase in insurance premiums (from flooding and subsidence risk), retrofitting costs (for increasing energy efficiency) or higher energy bills due to carbon pricing reduce the value of the asset. The asset-level analysis is combined with macroeconomic factors to calculate the overall impact on credit risk. Property value climate impairments are translated into climate adjusted Loan to Value along with relevant valuation indices for retail property or commercial real estate and reflected in the projected Loss Given Default (LGD).

Property-level modelling assumptions were made in line with the guidance provided in the Bank of England’s CBES exercise. Key assumptions include:

#### Retail mortgages:

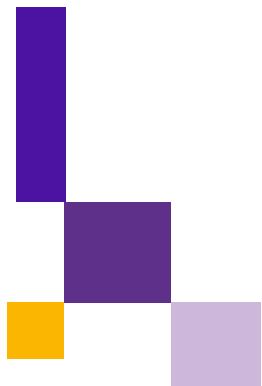
- Properties transition to the highest feasible EPC band by 2050.
- 65% of properties install a heat pump by 2050.
- Properties that cannot upgrade to an EPC band of E or above are assumed to become unmarketable and the value of the property reverts to land value.

#### Commercial real estate:

- Properties are assumed to transition to an EPC band one better than their current EPC band by 2050.
- The per m<sup>2</sup> cost of retrofitting a property is 20% lower than the per m<sup>2</sup> cost of retrofitting a residential property of an equivalent EPC upgrade.

#### Risks modelled for commercial real estate and retail mortgages

Risk type	Impact channel	Description of risks modelled
Transition risks	Energy efficiency requirements	Retrofitting costs related to the transition of properties to higher energy efficiency standards
	Energy bills	Changes in electricity and gas prices
Physical risks	Flood	The effect of increased flood risk on residential and commercial property insurance premiums
	Subsidence	The risk from subsidence was estimated for residential properties only



### 3.7.3 Modelling approach continued

To model the Probability of Default (PD) of Retail mortgages, NatWest Group used established stress testing models that take into account factors including interest rates and unemployment used to estimate credit risk in the mortgage portfolio. This created a projected point-in-time PD for each asset and time period. Insurance coverage was applied probabilistically to the UK mortgage portfolio based on arrears status and flood risk. The FloodRe scheme is assumed to be available for owner-occupied residential properties built before 2009 only, hence excluding all commercial property, buy-to-let residential property and newer owner-occupied residential property. PDs for commercial real estate counterparties are determined through the same approach as corporate PDs described on page 39.

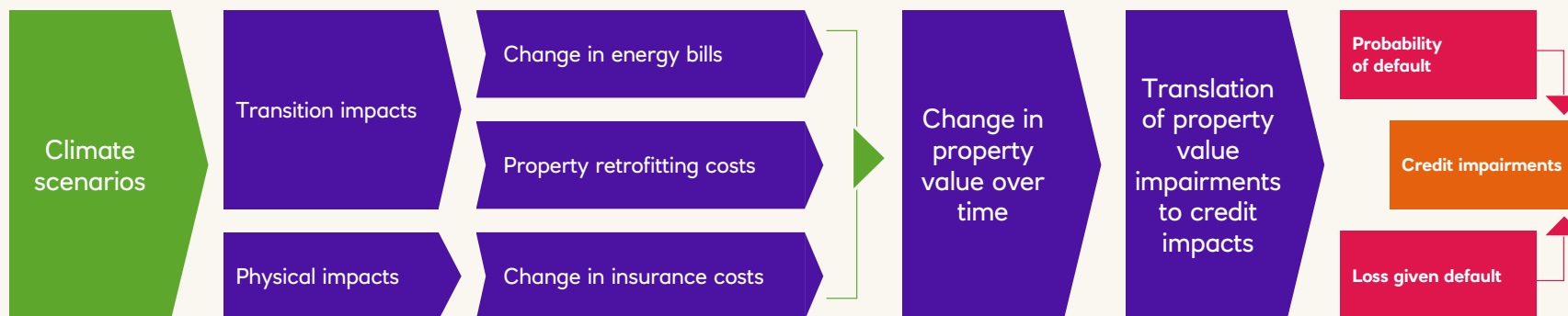
This modelling approach provides valuable insights but has limitations.

- Climate change impacts to one property will not impact the prices of other properties. This excludes second order impacts such as increases in demand for relatively more energy efficient properties and geographical shifts in demand as homes in flood-prone areas become less desirable.
- There are limitations with EPC data (as noted in section 3.7.4) which impact this analysis. The EPC band of a property is a key determinant of risk, as the least efficient properties (EPC bands D-G) are most exposed to rising energy prices and have the highest retrofitting costs. NatWest Group did not have EPC band information on all its residential property portfolio as noted in section 5.2. For properties that did not have EPC band information, a proxy EPC was estimated using the following approach:

- Properties built after the year 2000 were assigned an EPC band of C.
- Properties built during or prior to 2000 were provided with an EPC rating of D-G based on the distribution of available EPC ratings of properties built in or prior to 2000. For example, if 20% of properties have an EPC rating of G then the probability of assigning an EPC rating of G for a given property built in or prior to 2000 will be 20%.

Where EPC certificates were missing for commercial properties, instead of proxying the EPC band, the building value was impaired based on average impairments of comparable buildings that do have EPC data available. Given the importance of property EPC bands to transition risk exposure, NatWest Group is working to improve the EPC coverage of its properties through sourcing additional data. The analysis also applied macroeconomic shocks associated with each of the climate scenarios to NatWest Group’s unsecured lending to quantify impacts on this element of the lending portfolio.

Simplified overview of modelling methodology for commercial real estate and retail mortgages



## 3.7.4 Modelling limitations, capability enhancements and future developments

Through the preparatory scenario modelling work undertaken across 2020-21 several challenges and limitations with executing climate scenario analysis were identified. To enhance modelling capability, the following approach was used:

- A number of arrangements were set up with leading providers to obtain climate-related data not readily available within NatWest Group to further support and enhance assessment of climate-related risks and opportunities.
- NatWest Group undertook extensive work engaging directly with our clients to gather quantitative and qualitative climate information.
- Climate scenario modelling capabilities were enhanced as described in section 3.7.1.

Despite the material progress achieved through the above actions, climate scenario modelling remains a rapidly developing space with significant challenges and limitations remaining. These include (but are not limited to);

- High quality and reliable emissions data and revenue segmentation for non-listed corporates is scarce, with particular challenges in the financial institution and agriculture sectors.
- Sector classifications may not accurately reflect current corporate characteristics, in particular for the emerging 'green' industries.
- EPC data for residential and commercial property is incomplete and requires use of estimates.
- Modelling techniques are still developing, with industry best practice likely to evolve over the coming years.
- There are a number of specific technical and data challenges with capturing all the risk drivers, for example the impact of physical risk on global supply chains or on geo-political risk.
- Regulatory requirements are still developing, for example updates are expected over 2022 on the approach to incorporating climate-related risks within the regulatory capital regime.

Climate scenario analysis remains in a developmental phase and NatWest Group continues to advance its analytic capabilities. Noting the above modelling limitations, NatWest Group has used a combination of peer benchmarking and robust review and challenge of modelled results to gain comfort that the outputs of its scenario analysis to date (including the CBES exercise) provide useful strategic insights.

During 2021 NatWest Group has leveraged features of the CBES Late Action scenario within its internal scenario analysis processes, to test the resilience of capital plans to the rapid and disruptive onset of climate policy. We are also developing an approach to embed insights from scenario analysis within wider strategic portfolio-level and customer-level decision-making.

Please refer to section 5.8 of this document and the risk factors included in the 2021 NatWest Group plc Annual Report and Accounts.





3.8

## The resilience of NatWest Group’s strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario

NatWest Group’s lending portfolios are highly diverse. Climate risk tends to be concentrated in specific sectors and geographies across both Wholesale and Retail portfolios. The high-level insights covered in this section are informed by work completed for the 2021 CBES regulatory exercise, but do not show the outputs of the exercise given NatWest Group’s understanding that it is the Bank of England’s intention to publish quantitative results later in 2022.

This insight is supplemented by internal sensitivity analysis on the same set of CBES scenarios to better understand the risks identified. Section 3.8.1 references insights for a range of higher-climate transition risk sectors across NatWest Group’s wholesale portfolio. The specific sectors referenced in this section were selected to best illustrate the breadth of insights enabled by our scenario analysis work.

This work has further enhanced our understanding of the climate-related risks and opportunities that shape our climate ambition and the strategies we are setting to support our customers’ transition to net zero. The outcomes observed for various sectors will help us further develop risk management approaches and tools to mitigate physical and transition risk. The transition to net zero will also provide opportunities for our business, operations and for our customers our use of scenario analysis help us to further understand the impact of transition across different sectors. We will continue to use the insights from this analysis to assess our climate ambition and support customer transition.

In addition, to identify, assess and manage climate-related risks and opportunities and understand the drivers of climate-related transition risks and opportunities in our business, we have worked to estimate emissions for our year end 2019 and 2020 loans and investment book. We have also used externally published scenarios to estimate reductions required by 2030 to support our ambition to halve the climate impact of our financing activity. Refer section 5.7 for further details on this analysis including details on scenarios used.

Recognising the variation in impacts of climate change across different sectors and customers, as part of our Climate ambition, we will continue to work with customers to support their transition to net zero. Delivering against our target to provide £100 billion Climate and Sustainable Funding and Financing will enable customers to invest in activities aligned with our CSFI criteria to support their transition to net zero. Other on-going initiatives are noted in sections 3.4 and 3.5.

3.8.1

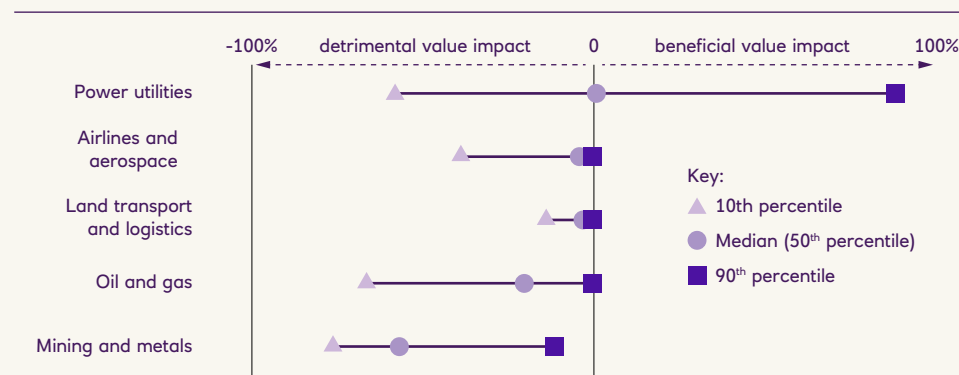
## Corporate counterparties

Our bottom-up counterparty-level analysis of climate risk has enabled us to compare the relative levels of transition and physical risks faced on average between different sectors and to identify pockets where risks are concentrated. This scenario analysis has helped to further support NatWest Group’s understanding and assessment of its heightened climate-related risk sectors in 2021 (see section 5.1 Metrics and Targets).

NatWest Group carried out a counterparty-level deep dive analysis of the sectors most exposed to transition risks, including mining and metals, oil and gas, building materials, airlines and aerospace, and power utilities. Sectors identified as higher risk are highly emissions intensive and therefore particularly exposed to rising carbon costs. Global carbon prices reach over \$700/tCO<sub>2</sub> by 2050 in the Early Action and Late Action scenarios and even higher in some economies, thus significantly increasing the cost burden for companies in the most emitting sectors, only some of which can be passed on to consumers. Some sectors also experience reduction in demand for fossil fuel products and services as the energy system decarbonises.

The figure below shows the impact of the Late Action Scenario on the projected profitability of an example set of counterparties, chosen to demonstrate variation of impact, across multiple higher-risk sectors, showing the median impact for each sector as well as the 10th and 90th percentile in that sector relative to a hypothetical baseline scenario that assumes no increase in physical or transition risk through the scenario period. Within higher-risk sectors there can be significant variation in counterparty-level impacts, with some counterparties experiencing relatively small impacts, and others significantly losing or increasing in profitability. This variation is driven by counterparties’ individual characteristics, including their emissions intensity and the specific sub-sectors and geographies in which they operate. This means that there are pockets of higher and lower risk even among counterparties in higher risk sectors. NatWest Group will use this insight to help inform how we support customers execute transition strategies.

**Estimated range of impact on a sample of companies’ profitability for selected high risk sectors under the Late Action scenario**





# 3.8.1 Corporate counterparties continued

## A key finding of our analysis is that risk can be concentrated in pockets within a high-risk sector.

In the oil and gas sector counterparties are exposed to different levels of the demand destruction and direct carbon cost risk drivers depending on the sub-sectors and geographies in which they operate. Oil and gas companies with upstream operations in exploration and production are more exposed to demand destruction, with the highest-cost producers the first to exit the market as demand for fossil-based products decreases throughout the scenario.

Some of these companies are also more highly impacted by physical risk if they have assets located in regions particularly exposed to rising temperatures, such as in the Gulf of Mexico.

Although oil and gas companies with downstream operations in refining and other services do experience a knock-on reduction in demand from the shrinking of the upstream market, these companies are mostly exposed to direct carbon costs on their operational emissions. The figure opposite shows the impacts on two companies in the oil and gas sector: Company A experiences larger loss of value from declines in the price and quantity of oil and gas it sells ('demand destruction') while Company B's climate-related risks are driven much more by its exposure to carbon cost from its own operations.

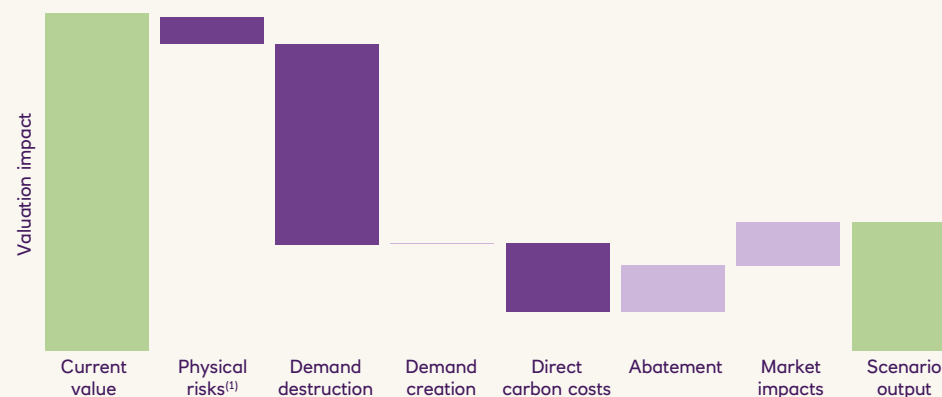
It is expected that companies in the oil and gas sector that diversify away from fossil fuels and shift towards 'green' activities such as renewable energy, low-carbon hydrogen production, carbon capture and storage, and electric vehicle charging infrastructure will be able to benefit from the opportunities created by the energy transition.

Other sectors also experience significant within-sector variation. Within the power utilities sector, the median impact on value in the Late Action scenario is slightly positive. Around this median, there are a number of counterparties with large negative impacts. These are in the most part high-carbon utilities that generate electricity from fossil fuels and incur significant carbon costs on their operations.

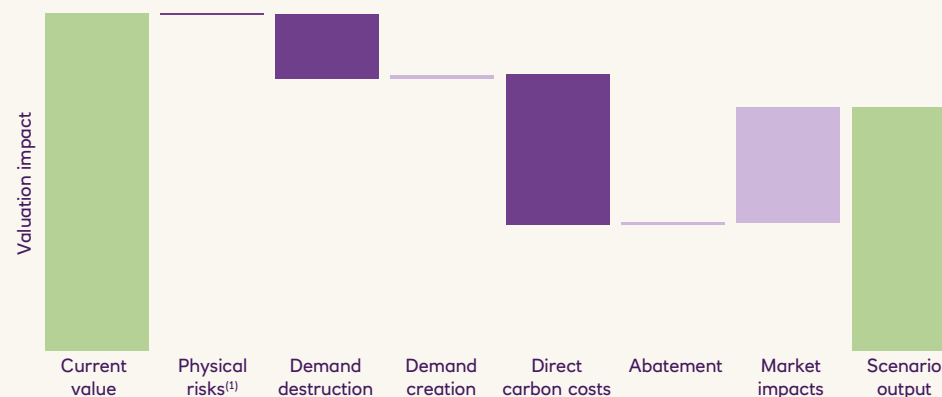
By contrast, other companies experience large, positive impacts. These are typically low-carbon electricity generators that experience improved margins as electricity prices increase, gain market share from high-carbon generators, and benefit from an overall increase in demand as the energy system becomes increasingly electrified. Within the airlines and aerospace sector there are also a number of counterparties with large negative impacts. These are airline companies that generate substantial emissions from the operation of aircraft and combustion of jet fuel.

## Illustrative comparison of impacts for companies within the oil and gas sector in the Late Action scenario

### Company A



### Company B



1. Physical risk includes the impact of physical risk net of adaptation measures. These results are from a sensitivity run against the core CBES results, with transition risk abatement and physical risk adaptation included. See section 3.7.3 – risks modelled for corporates for further detail.

3.8.1

# Corporate counterparties continued

There can also be significant differences in drivers of risk across different sectors. The building materials sector, as an example, generates substantial emissions, notably from the manufacture of cement and is highly exposed to rising carbon costs.

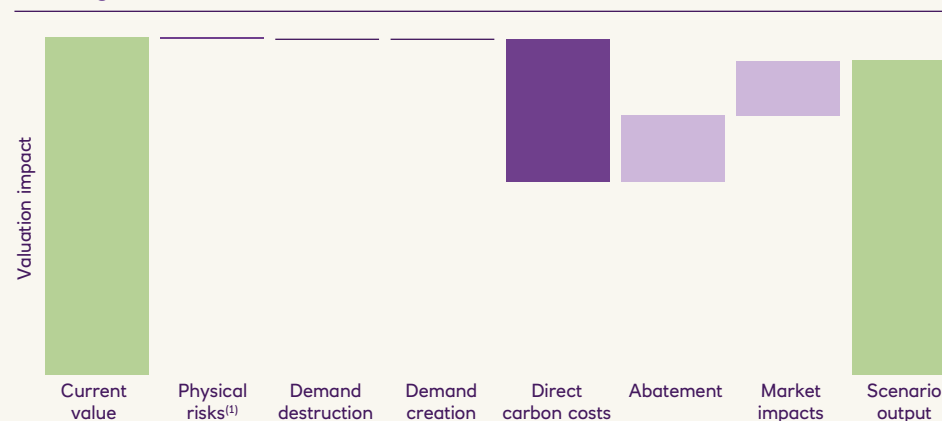
In contrast, the mining and metals sector experiences a smaller impact from direct carbon costs, but also experiences significant impacts from changes in demand for its products. Mining companies that shift towards ‘green’ minerals will be able to benefit from the increase in demand for copper, cobalt, lithium, and nickel that are required for low-carbon technologies. Coal mining companies experience significant reduction in demand as the energy system decarbonises and the use of coal declines.

NatWest Group’s scenario analysis work displays insights applicable at the sector-level, given the presence of common characteristics across counterparties such as exposure to market dynamics, e.g. changes in demand. However, across our wholesale portfolio we also see significant variation between counterparties within each sector. This highlights the need to set intelligent risk appetite policy, develop granular customer-level analytics, and tailor support to the specific characteristics of each customer.

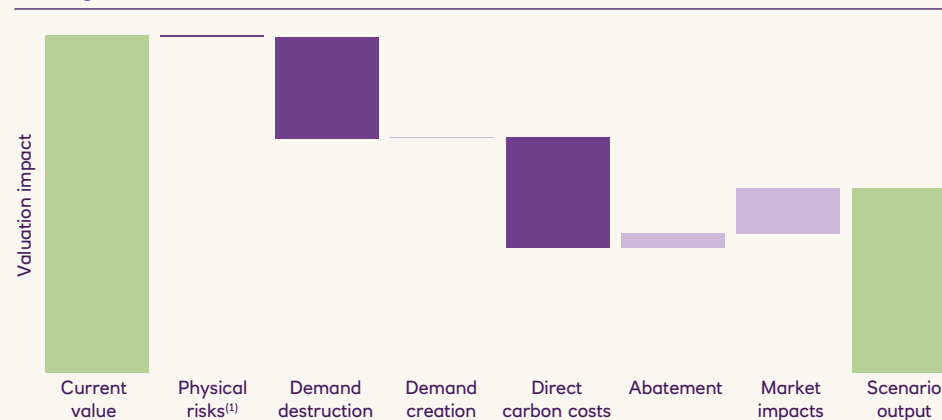
For example, during 2021 a methodology was developed to assess climate risk exposure at the counterparty-level using scorecards, with the first scorecards launching in Q4 2021 (see Section 4.3). These capabilities will enable NatWest Group to appropriately identify risk and provide the right support to customers.

## Comparison of average impacts for building materials and mining and metals sectors

### Building materials



### Mining and materials



1. Physical risk includes the impact of physical risk net of adaptation measures. These results are from a sensitivity run against the core CBES results, with transition risk abatement and physical risk adaptation included. See section 3.7.3 – risks modelled for corporates for further detail.

## 3.8.2 Retail mortgages and commercial real estate

**Transition risk:** Given residential buildings contribute c.15%<sup>(1)</sup> of the UK’s total greenhouse gas emissions (without accounting for electricity consumed by households) the decarbonisation of residential housing stock is essential to achieving net zero. Transition risk at the property level includes rising household energy costs due to the impact of carbon pricing and the cost of retrofitting to meet energy efficiency requirements. The figure opposite shows that by 2050, properties with the worst EPC bands face the highest increase in annual energy costs; around four times higher in band G than bands A-B.

In scenarios with high carbon prices, gas prices rise significantly more than electricity prices. Specifically, this means that customers with the least energy efficient properties, and that remain reliant on gas, experience the greatest reduction in property value. In October 2021 NatWest Group, as part of the Sustainable Homes and Buildings Coalition, published the ‘Home is where the Heat is’ report, which offered insights, ideas and recommendations to help support the decarbonisation of homes and buildings across the UK.

The analysis found that customers who install a heat pump can significantly reduce their gas consumption and mitigate against rising carbon prices, resulting in a reduced impact on property value. Similarly, increasing the energy efficiency of a property through retrofitting can also be highly effective in mitigating against rising energy prices and reducing value impairment. NatWest Group is incorporating these insights into its approach for supporting customers.

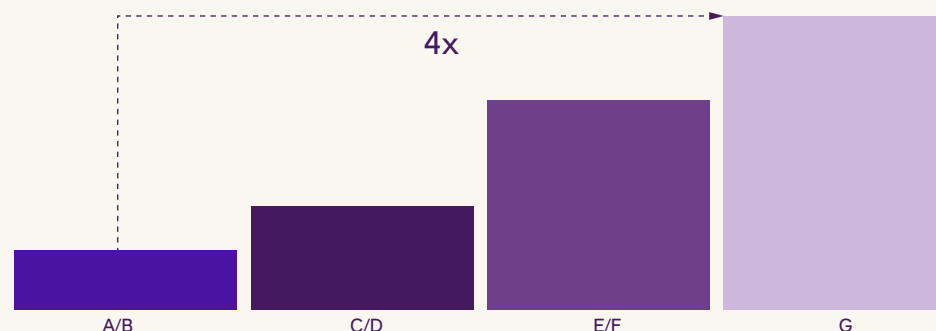
Commercial real estate is subject to the same pattern of transition risks as retail mortgages, with the least energy efficient buildings experiencing the greatest impacts due to their high exposure to rising energy prices and higher costs associated with energy efficiency refurbishment in future. NatWest Group has responded to this risk by incorporating minimum EPC band requirements within Transaction Acceptance Standards (TAS) for segments of its commercial real estate portfolio.

**Physical risk:** Impacts are greatest in the No Additional Action scenario, however the impact of physical risk on the commercial real estate and retail mortgage portfolios in this scenario is smaller than the overall impact of transition risk in the Late Action scenarios. Whereas nearly all properties are exposed to transition risk, our analysis found that physical risk for both flooding and subsidence is highly localised (see section 5.2 Metrics and Targets).

For properties in high flood-risk locations the annual average cost of damage from flooding approximately doubles by 2050; impacts are smaller on properties that are currently not at high risk of flooding, as shown in the figure opposite. Flood risk and its associated change in flood insurance premia has been identified as the key direct physical risk for buildings in the UK and NatWest Group will improve flood risk data forecasting to support its strategy to support affected customers.

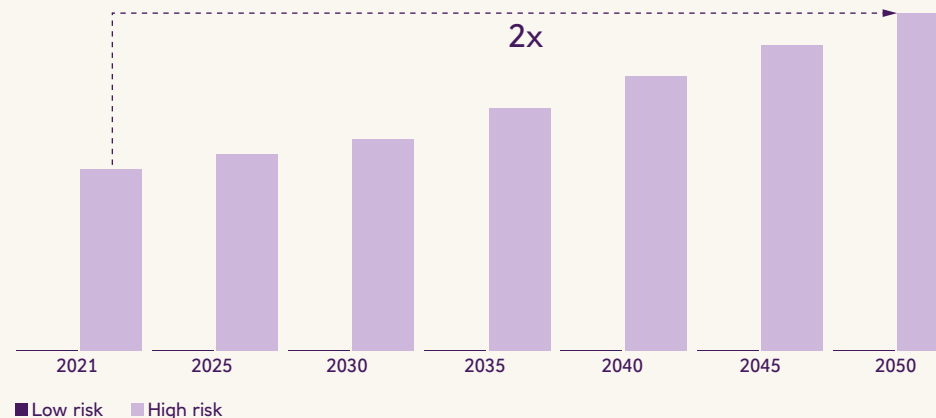
1. Department for Business, Energy and Industrial Strategy, 2019-21 UK Greenhouse Gas Emissions, Final Figures – [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/957887/2019\\_Final\\_greenhouse\\_gas\\_emissions\\_statistical\\_release.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957887/2019_Final_greenhouse_gas_emissions_statistical_release.pdf)

Average increase in household energy costs by 2050 in the Late Action scenario by current property EPC band



Note: for the results shown properties are assumed not to install a heat pump

Average annual damages from flooding for properties identified as high flood risk and low flood risk in the No Additional Action Scenario







# 4

## Risk Management

How we identify, assess and manage climate-related risks.

---

- 4.1 Our processes for identifying and assessing climate-related risks
- 4.2 How climate-related risks are integrated into risk management processes
- 4.3 Integration of climate-related risk factors into risk management: our progress and priorities





## 4.1

## Our processes for identifying and assessing climate risk

Climate risk is the risk of financial loss or adverse non-financial impacts associated with climate change and the political, economic and environmental responses to it.

### Our risk framework has been updated to include climate risk

NatWest Group's appetite for climate risk is based on an acknowledgement that there will always be some exposure to long-term financial, customer, operational and reputational impacts from climate change. We therefore seek to balance those threats with the benefits of aligning activities and operations to stated climate ambitions and strategic objectives.

NatWest Group has adopted a dual approach to climate risk management. We recognise climate risk as both a principal risk, as well as a causal factor affecting several other closely correlated financial and non-financial risks. Throughout 2021 we continued to embed this dual approach, establishing new climate risk-related requirements within our risk framework, and enhancing existing components to reflect climate risk. Also in 2021, a dedicated climate risk team was established to discharge our second line of defence accountability of risk oversight.

### The relative significance assessment

Climate risk can arise through either physical or transition risks. The resultant impacts translate to several risks which are characterised, assessed and managed by NatWest Group (see section 3.2).

Initial scoping for integration of climate-related risks into NatWest Group's EWRMF, which started in 2019, was heavily influenced by the PRA's Supervisory Statement SS3/19. From the outset, it was evident that the impact and materiality of physical and transition risks on NatWest Group's risk profile would be dependent on several internal and external factors and would evolve over time. The impact of transition risk as a causal factor on other principal risks is expected to increase in line with the pace of transition to net zero. Similarly, physical risk is expected to become increasingly evident through more severe and frequent extreme weather events.

Recognising the uncertainty around the timing and the channels through which risks from climate change may materialise, initial focus was given to those physical and transition risk factors deemed most material to NatWest Group's risk profile, viewed through a short-term time horizon of approximately five years. A combination of regulatory guidance, industry engagement, risk management best practice and expert judgement was used to shortlist those principal risks deemed to be most vulnerable to climate-related impacts.

In 2021, we refreshed our largely qualitative assessment of the relative significance of climate risk on our principal risks, reflecting enhancements made in the approach to climate risk management. Expert judgement combined with early views of scenario analysis outputs, improvements in the availability of climate data, as well as evolving regulatory guidance were used to re-assess the current and potential impact of physical and transition climate risk as a causal factor to other risks. This re-assessment identified the following principal risks as being most exposed to climate-related impacts: credit risk, operational risk, reputational risk, conduct risk and regulatory compliance risk.

NatWest Group has a relatively low level of exposure to market risk and the short dated nature of our exposure suggest impact of climate is not significant. In terms of liquidity risk, the physical risk impact on client's liquidity requirements and reputation impact on capital funding are deemed to be manageable with current mitigation and liquidity profile. As part of this review of relative significance it was recognised that over a medium to long-term time horizon (10 to 30 years) climate risk has the potential to materialise more broadly across NatWest Group's risk profile. In response, tools and methodologies used to manage risks across all other principal risks were subject to a high-level review in 2021.

Climate risk impact as a causal factor for all principal risks will continue to be regularly reassessed. This process will be managed through the annual refresh of the EWRMF and its individual components. Specific details of how climate risk has been sized and scoped for each of the relatively significant principal risks, and how frameworks have been improved in response, can be found throughout the Risk Management section of this report. Climate change is also considered as part of NatWest Group's Top and Emerging Risks framework, for further details see NatWest Group's 2021 Annual Report and Accounts.

### How we consider existing and emerging regulatory requirements

NatWest Group regularly considers existing and emerging regulatory requirements related to climate change. External horizon scanning and monitoring of emerging regulatory requirements is completed by our Legal, Governance and Regulatory Affairs team. Updates are reviewed regularly by the Executive Steering Group and where necessary will inform any changes to our climate risk policy updates. Additional monitoring is carried out by NatWest Group franchises and other teams to identify potential policy changes which could become climate-related transition risks.

## 4.2

## How climate-related risks are integrated into risk management processes

### Integrating climate risk into risk management

Climate risk was formally incorporated into the NatWest Group risk directory as a principal risk in February 2021 and in April, NatWest Group Board Risk Committee approved a principles-based climate risk policy. This defined the key principles for the identification, assessment and management of climate risk, through the requirement to incorporate climate considerations into key risk management processes:

- i. Ensuring management and mitigation of climate risk through the appropriate use of climate risk limits and measures and appropriate customer engagement.
- ii. Ongoing monitoring of the multiple facets of climate risk affected by a fast-moving regulatory environment, including government policy changes, as well as developments in scientific understanding and societal expectations.
- iii. Regular reporting of climate risk to senior forums including NatWest Group Board Risk Committee and NatWest Group Board, as well as enhancement of capabilities to deliver external reporting requirements.

### Our risk management processes have been enhanced in order to adhere to our updated framework

In line with effective risk management principles, and to meet requirements set out by the NatWest Group climate risk policy and risk appetite statement, the management of climate risk is largely delivered through three mechanisms:

- i. **Scenario analysis** to identify, assess, measure and mitigate climate risk on NatWest Group's balance sheet. Credit scenarios have been delivered on the basis of the CBES exercise (see section 3.7) and an operational physical climate risk scenario (see section 4.3).
- ii. **Long-term balance sheet transformation** driven by NatWest Group's climate ambition – enabled by reducing exposure to harmful activities such as oil and gas, and coal, alongside the broader ambition to halve the climate impact of financing activities by 2030 (compared with a 2019 baseline). In addition, improvements in the energy efficiency of the mortgage portfolio will reduce transition risk on the balance sheet.
- iii. **Enhanced climate risk data capabilities** – a dedicated climate data and analytics team has been in place since 2021 to source, manage and enhance data essential to the effective management of climate risk. In addition to emissions data, in 2021 NatWest Group's residential mortgage and commercial real estate portfolios have been mapped to scenario-based geographic information to identify and quantify coastal, fluvial and surface water flooding risk to properties.

### Our climate risk appetite

NatWest Group has established a climate risk appetite statement, determining the level of risk which the climate risk policy seeks to operate within. In December 2021, the NatWest Group Board approved the adoption of climate risk appetite measures into the EWRMF, for integration in business-as-usual risk management in 2022. Three first generation risk appetite measures were approved, which support the reporting of:

- i. How effectively climate risk has been embedded within NatWest Group's risk management processes using industry benchmarking.
- ii. Sector-based progress against climate ambition to halve the climate impact of financing activity.
- iii. NatWest Group's residual emissions from own operations.

The new appetite measures reflect guidance issued by cross-industry bodies such as the Climate Financial Risk Forum as well as risk management best practice.

Risk appetite limits and triggers were defined as part of the annual EWRMF risk appetite refresh for implementation in 2022. Climate risk appetite will be supported by franchise and legal entity-specific key risk indicators and operational limits. This suite of metrics provides clear visibility of climate risk appetite to senior risk management forums and links risk management to NatWest Group's climate ambition. Examples of risk metrics identified include exposure to heightened climate risk sectors, EPC rating distribution and concentration of asset-backed lending to high risk geographical areas.



4.2

# How climate-related risks are integrated into risk management processes continued

## Continuing to improve integration of climate within our risk management processes

Following the inclusion of climate risk as a principal risk in the NatWest Group risk directory in Q1 2021, an approach which uses iterative multi-year enhancements was established to fully integrate climate risk as a factor within NatWest Group’s risk management. The timing of this multi-year journey reflects both the complexity of the task and evolving nature of climate data capabilities and supporting tooling.

A new climate maturity rating has been developed to enable visibility of the progress made across NatWest Group to embed climate risk capabilities and support the assessment and management of climate risk in the day-to-day operations of the business. This approach translated NatWest Group’s climate risk policy into thematic management outcomes. Implementation of processes, procedures and controls against these outcomes by the first line of defence provides a measurement of the level of maturity of climate risk management.

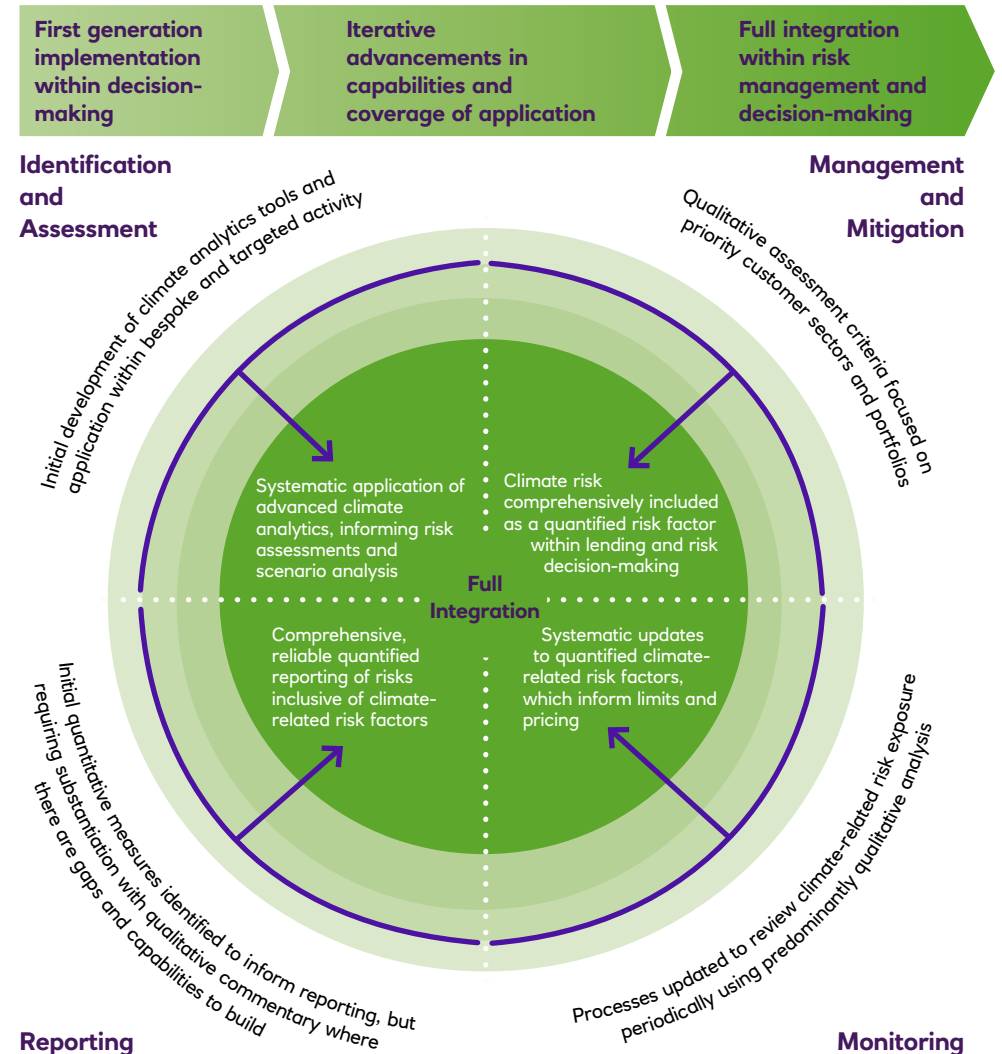
The maturity assessment is formed on a scale which recognises iterative improvements in climate risk management capability and application. Each risk management outcome is considered from both a depth and breadth perspective against this scale.

- Depth considers technical capability and sophistication of approaches, reflecting progression from use of proxy data, qualitative assessment, and subjective decisions to enhanced data, quantitative assessment with objective limits upon decision-making.
- Breadth considers the application of these approaches across products, sectors and customer segments with priority given to those which are highest emitting and most risk exposed.

This dual lens approach recognises that the depth and breadth of climate risk management will mature incrementally over time and individual franchises will prioritise according to their unique risk profile.

During 2021 we have achieved the minimum expectation of first-generation implementation for NatWest Group. This means a predominantly qualitative approach to the policy outcomes, with coverage across priority sectors or customers. Where quantitative approaches are applied, they are predominantly conducted on an ad hoc basis. Plans are in place setting out the work required in 2022 and beyond. Oversight of the execution of the plan will be performed by the risk function, in accordance with the NatWest Group three lines of defence model. Once all outcomes have been achieved to the most advanced maturity rating, climate risk as a principal risk will no longer be required as the capabilities to manage climate-related risks effectively would be integral to respective risk management activity.

The image below shows the journey from first generation to fully embedding climate risk management within businesses and processes.





4.3

# Integration of climate-related risk factors into risk management: our progress and priorities

This table provides highlights of key progress and priorities for the principal risks most materially impacted by climate risk. For further details of the events and impacts associated with the transition and physical risks arising from climate change, refer to section 3.2 of this report. While climate change poses significant risks, it also offers NatWest Group a range of opportunities to support customer transition to net zero. For details of our climate-related opportunities, see section 3.3 of this report.

Principal risk	Definition	Climate impact	2021 Key achievements and progress	Priorities for 2022 and beyond
Credit risk	Risk of loss arising from customers failing to meet contractual obligations to settle outstanding amounts.	Adverse impact upon future credit worthiness of customers due to climate change risk factors impacting asset valuation, income and costs.	<p><b>Wholesale</b></p> <p>Climate risk is included in TAS and in qualitative commentary within credit applications for the majority of the wholesale book.</p> <p>The inclusion of climate in sovereign risk assessment through a climate change vulnerability index tool.</p> <p>Development of a qualitative scorecard approach developed to provide a standardised assessment of customer exposure to physical/transition climate-related risks and opportunities.</p> <p>An initial assessment of EPC and flood risk was undertaken for the Commercial Banking commercial real estate portfolio to better understand the associated risk profile and inform actions to support customers.</p>	<p><b>Wholesale</b></p> <p>Climate risk to be included within credit applications for the Business Banking portfolio.</p> <p>Review and evolve the methodology for identification of heightened climate risk sectors, utilising additional data as it becomes available.</p> <p>Launch of the initial suite of scorecards and development of subsequent scorecards to expand coverage across the portfolio.</p> <p>Develop a more quantitative approach to the assessment of climate risk at customer level, incorporating climate transition plans, scenario analysis and scorecards.</p> <p>Enhance our understanding of the risk arising through commercial property by improving completeness of the EPC and flood risk analysis and by broadening work to cover subsidence risk, as appropriate.</p>
			<p><b>Retail</b></p> <p>Credit oversight tracking of EPC and flood risk concentrations has been developed to help monitor the performance of the Retail Banking mortgage portfolio, including the definition of preliminary operational measures to run in shadow as we develop an understanding of market dynamics and Retail Banking mortgage portfolio dynamics in these areas.</p>	<p><b>Retail</b></p> <p>Deliver an assessment of subsidence risk across the Retail Banking mortgage portfolio.</p> <p>Review preliminary climate operational measures to agree full operational measures to manage the Retail mortgage portfolio. This is due to be implemented in 2023.</p>
Operational risk	Risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	Increased likelihood, and potential impact of business disruption events, including potential stresses arising from new and changing financial reporting requirements.	<p>Climate risk was considered in targeted internal risk and control assessments (RCAs).</p> <p>A NatWest Group-wide operational risk climate scenario was completed in 2021. The scenario considered the physical risk of extreme heat.</p> <p>Climate-related questions were incorporated in the Change Impact Assessment (CIA). This tool is part of change governance and where appropriate triggers the re-assessment of risks impacted by change.</p>	<p>Fully embed climate change in RCAs and CIAs.</p> <p>Conduct a review of the approach and frequency of scenario exercises considering climate-related risks.</p> <p>Continued oversight of climate data controls.</p>





4.3

# Integration of climate-related risk factors into risk management: our progress and priorities continued

Principal risk	Definition	Climate impact	2021 Key achievements and progress	Priorities for 2022 and beyond
Reputational risk	Damage to stakeholder trust in NatWest Group as a purposeful bank as a result of negative consequences arising from internal actions or external events.	Risk of damage to NatWest Group's reputation arising from perceived impact on the world's climate or adequacy of actions taken in response when compared against commitments and peers.	Reviewed and updated three sector RACs exposed to heightened climate-related risk.  CTP assessments mandated by sector RAC were completed with second line of defence oversight.	Remaining sector RACs identified as exposed to heightened climate risk in 2021 will undergo review in 2022.  Complete ESE sector reviews for sectors exposed to heightened climate risk without a RAC in place, and where applicable, develop and implement sector RAC.
Conduct risk and regulatory compliance risk	Conduct risk is damage to stakeholder trust in NatWest Group as a purposeful bank as a result of negative consequences arising from internal actions or external events.  Regulatory compliance risk encompasses the failure to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice.	Customer detriment arising from the impacts of climate change including changes to financial stability or general wellbeing, which will either be supported or exacerbated by NatWest Group's response.  Specific regulatory expectations associated with climate risk to support government commitments.	Supported the development and embedding of climate-focused questions which have been embedded into the existing governance processes.	A product policy standards update is due to launch in 2022.  Ongoing product training initiatives to enhance capability around the management of climate-related risks.



## Management and integration of climate-related risks: our progress and priorities continued

### Wholesale credit risk

Climate change presents increased risk to our wholesale customers, through both physical and transition risk. These present potentially increased credit risk to NatWest Group that we need to understand and manage across all stages of the credit life cycle.

The Wholesale Credit Risk Climate forum brings together key stakeholders to integrate and embed climate risk into wholesale credit risk management, including future consideration of risk appetite and its effective management. It is supplemented by cross-franchise working groups supporting more granular activity to integrate climate risk in the credit assessment process. Key climate decisions impacting credit risk frameworks, policies and risk management activities, such as approval of a heightened climate risk sector review, are escalated to the Wholesale Credit Risk Forum for approval.

We have continued to embed climate risk in the wholesale credit risk concentration framework primarily through:

- continued inclusion of climate risk as an input into sector classifications, which determines the governance and frequency of review; and
- the mandatory inclusion of qualitative climate commentary within each sector review.

Heightened climate risk sectors identified in 2020 were reviewed in 2021. This review covered all exposures and assessed susceptibility to physical and transition risk, emissions intensity and scenario analysis outcomes. Based on this review we have retained the existing heightened climate risk sectors as identified in 2020.

**Our TAS criteria** were enhanced through the inclusion of sector-specific climate considerations focused on heightened climate risk sectors (see section 5.1), as well as generic climate considerations for other TAS documents. This supported the qualitative assessment of climate risk across the wholesale credit portfolio, including the mandatory inclusion of climate commentary for most of the portfolio from Q4 2021. This assessment has been incorporated into existing review processes undertaken by first and second lines of defence and must, as a minimum, be refreshed annually. Commentary is guided by TAS requirements and includes, for example, an assessment of physical and transition risks, quality of transition plans, understanding of customer capabilities to manage climate-related risks, emissions foot printing and the associated potential financial impact.

**Climate scorecards:** During 2021 a methodology was developed to assess climate risk exposure among NatWest Group's wholesale customers using scorecards. These provide a consistent approach to the qualitative assessment of customers' exposure to physical/transition risks and opportunities. The scorecards are aligned with the PD models used to grade customers.

In Q4 2021 the first scorecards (covering mid-large and large corporate, property, housing association, banks and leveraged funds) were finalised for approval and launch in Q1 2022. These will cover approximately three quarters of exposure at default and an estimated half of the emissions associated with our heightened climate risk sectors.

In Q4 2021, NatWest Group began to develop a pathway to a more **quantitative assessment** of climate risk within the credit assessment process. Our ambition is to integrate climate activities which improve our customer-level analysis, including the assessment of climate transition plans, climate scenario analysis output and climate scorecards. This work will help to mature risk appetite, differentiate pricing and support appropriate business opportunities and risk management.

**Managing commercial real estate climate risk:** In 2021 Commercial Banking continued the work to assess the energy efficiency profile of its commercial real estate portfolio. This was supported by the launch of the Commercial Banking Property Environmental, Climate & Sustainability Risk TAS in May 2021. This TAS provides guidance for all transactions that take property as security to ensure appropriate energy efficiency standards are met. To support this, enquiries are made of a customer's awareness of MEES regulations. Where the property has a current EPC of F or G, customers are asked to confirm what plans are in place to address compliance issues. In 2022, NatWest Group intends to further improve the MEES analysis of its commercial real estate portfolio to better support customer interactions and decision-making. Enhancements will include widening the scope to cover other franchises where applicable.

In 2021, an assessment of flood risk was undertaken on the commercial real estate portfolio. The insights from this analysis will enable colleagues to better support customers to address potential physical risk and mitigate associated financial risks for the bank arising from holding a charge over this security. In all transactions secured by property within the UK, NatWest Group requires due diligence to identify and understand our customer's vulnerability to environmental, climate and sustainability risk.

The Commercial Banking Property Environmental, Climate and Sustainability Risk TAS details requirements relating to flood risk mitigation, including the requirement for valuations exceeding £500,000 to be supported by a Groundsure Siteguard report. Plans are in place to further enhance commercial real estate flood risk insight through modelling additional physical factors such as rising sea levels. In addition, NatWest Group intends to broaden the scope of its analysis to cover other franchises and to include subsidence risk where appropriate.



## 4.3

## Integration of climate-related risk factors into risk management: our progress and priorities continued

**Managing sovereign risk:** NatWest Group developed a bespoke Climate Change Vulnerability Index and Climate Change-adjusted Sovereign Stress Testing tool to support the CBES 2021 exercise. This tool identifies countries most vulnerable to climate change by considering climate-related economic impacts over a 30-year period and factoring these into the sovereign probability of default model for generating sovereign downgrades. The 23 countries selected for the 2021 CBES exercise were those with high potential exposure/risk weighted assets and/or are vulnerable to climate change.

**Looking ahead:** Building on progress made over the past year, several enhancements are planned for 2022. TAS will evolve, influencing future risk appetite and supporting customers' transition plans. As a result, customer commentary and credit assessments will also evolve to reflect these changes and reference pertinent climate information as it becomes available through scenario analysis outputs, work on alignment with the goals of the 2015 Paris Agreement, and the evolution of climate scorecards. We intend to prioritise the scorecards used to assess SMEs and project finance, at which point scorecards will cover the majority of exposure and almost all emissions for NatWest Group's heightened climate risk sectors. As the availability of quantitative climate data improves, this will be incorporated in the scorecard tool, which will become increasingly automated to help improve the consistency of assessment. Furthermore, climate scores derived from these scorecards are expected to act as an enabler for future activity, including the setting and management of climate risk appetite.

### Retail credit risk

During 2021, we focused on further developing our understanding of Retail Banking mortgage portfolio exposure and risk concentrations associated with extreme weather events, as well as the impact of future regulatory change intended to accelerate the transition to net zero. Enhancements focused on integrating climate risk into business-as-usual retail credit risk management.

**Transition risk:** The UK Government aims to upgrade as many private rented sector homes as possible to EPC band C by 2030, where practical, cost-effective and affordable, with NatWest Group providing input to associated consultations through UK Finance. NatWest Group closely monitors future developments in EPC regulation to understand the impact of potential regulatory change to asset valuations. In 2021, a proactive approach to understanding future risk examined what percentage of NatWest Group's buy-to-let portfolio had an EPC rating of E. The findings revealed that 16% of the BTL portfolio had an EPC rating of E, and therefore was at potential elevated risk from future regulatory change which was considered within determining preliminary operational limits.

**Physical risk:** Residential property lending criteria incorporates potential physical risks as part of NatWest Group's business-as-usual risk management process:

- For any new mortgage lending decisions, flood, subsidence, coastal and environmental risks are assessed as part of the valuation process. Lending will proceed where the valuer does not find evidence of property risk factors at an individual property level that might potentially restrict a customer's ability to obtain home insurance.
- The valuation strategy includes controls to exclude the use of automated valuations in vulnerable areas, for example properties in areas with a high potential for flood risk.

Following an initial property-level analysis of flood risk across properties in Great Britain in 2020, NatWest Group was able to assess the proportion of residential properties at high and very high risk of flood. Flood risk data is now refreshed monthly, with scheduled updates provided to Retail Banking Secured Credit Risk forums. At year-end, 2021 property-level analysis of the mortgage portfolio showed that 3.1% of the portfolio was assessed as being at higher risk of flooding (equivalent to £5.2 billion by loan value) see section 5.2 of this report for further details. In addition to continuing work on flood risk, we improved our understanding of subsidence risk across our Retail Banking mortgage portfolio – in particular those properties at elevated risk of clay-related shrink-swell subsidence. Initial property-level data has been developed, which will inform future work in this area in 2022.

Assessments were conducted on the effectiveness of climate-related adaptation plans within NatWest Group's Home Buying & Ownership (HB&O) team. The review considered four key pillars of work: product choice, customer engagement, sector engagement, and data and risk management. It is retail credit risk's view that the HB&O team have taken reasonable steps to address climate considerations from a credit risk perspective with recommendations including considering impact analysis of buy-to-let regulations and continued engagement with external stakeholders.

Several measures were developed in 2021 to help address regulatory expectations outlined in the PRA's Supervisory Statement SS3/19 and further support retail credit risk management. These new measures, supported by EPC and flood risk data, will be used in 2022 as preliminary operational limits. These limits will run in shadow to monitor the performance of the Retail Banking mortgage portfolio as well as new business in-flows, specifically focusing on three key areas: monitoring the concentration of EPC A and B rated properties within the portfolio; tracking the concentration of buy-to-let properties unlikely to improve energy performance to an EPC rating of C or above by 2030; and monitoring the concentration of flats, new builds and buy-to-let properties at high or very high risk of flood.

## 4.3

## Integration of climate-related risk factors into risk management: our progress and priorities continued

### Operational risk

During 2021, we performed a climate scenario exercise focused on operations in the UK and India. The scenario analysis considered two extreme but plausible events: 1-in-25 year; and 1-in-100 year climate-driven occurrence. Both events were based on the scenario that average global temperatures are expected to rise by more than 4°C by 2100. The exercise aimed to assess the potential effects of these events, including disruption to business services, damage to physical assets and health and safety.

#### 1-in-25 year climate-driven event

Lethal heatwaves hit Delhi, Gurugram and the United Kingdom for three days. The extreme heat causes mass absenteeism through associated heat stress/health issues preventing colleagues from working. Home working environments become too uncomfortable to work in (homes without air conditioning reaching 45°C in Delhi and Gurugram and 40°C in England and Wales, with new build homes in England and Wales expected to be particularly impacted); school closures require colleagues to increase childcare responsibilities; and interruptions to public transport prevent colleagues from reaching the office.

In addition, due to dust storms in Delhi, a series of power outages, lasting three days, affect parts of the city further increasing absenteeism as colleagues are unable to work from home.

Absence levels reach 20% of the workforce with a significant (10%) reduction in productivity for those remaining. Key suppliers are also experiencing similar levels of business disruption.

#### 1-in-100 year climate-driven event

Lethal heatwaves hit Chennai, Delhi, Gurugram and the United Kingdom for seven days. The extreme heat causes the governments in both countries to issue guidance to not leave home unless necessary. Mass absenteeism is seen through associated heat stress/health issues preventing colleagues from working. Home working environments become too uncomfortable to work (homes without air conditioning reaching 50°C in Chennai, Delhi and Gurugram and 45°C in the UK, with new build homes in UK expected to be particularly impacted). In addition, school closures require colleagues to increase childcare responsibilities and interruptions to public transport prevent colleagues from reaching the office as well as adherence to government stay at home guidelines. In addition, due to dust storms in Delhi, a series of power outages, lasting seven days, affects parts of the city further increasing absenteeism as colleagues are unable to work from home.

Absence levels reach 40% of the workforce with a significant (20%) reduction in productivity for those remaining. Key suppliers are also experiencing similar levels of business disruption.

### Scenario insights:

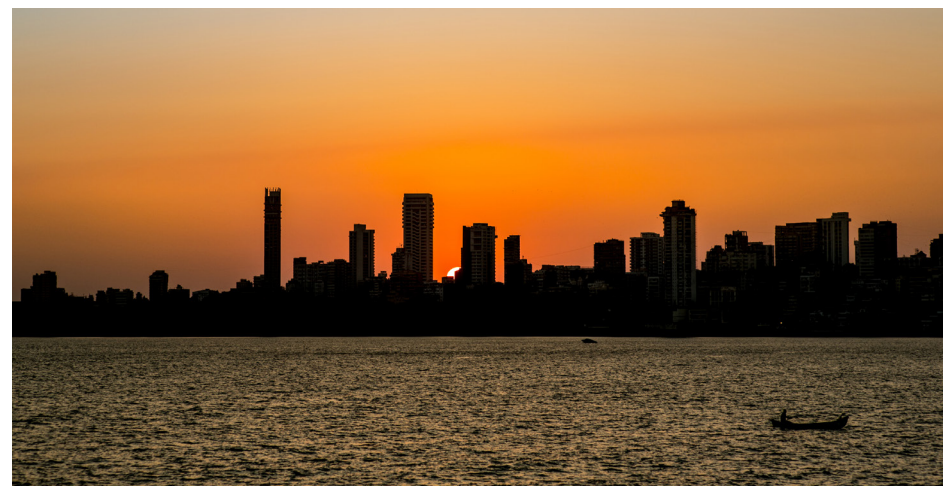
- The customer impact from a 1-in-25 year scenario was minimal, with a direct cost implication estimated at approximately £0.6 million.
- The reputational impact of a 1-in-100 year scenario was categorised as ‘Important’ and the customer impact was minimal, with direct costs estimated at approximately £16.4 million.

The most material risk from both scenarios was identified as disruption to business services. The findings of the exercise demonstrated adequate operational load balancing provided through alternative business locations. In addition, most existing controls were found to be effective, which supported recovery from the scenarios explored. The outcomes of the 2021 scenario analysis will be used to inform future scenario-led exercises.

### Additional enhancements in 2021

A climate-focused operational risk exposure dashboard was developed to provide quarterly monitoring of climate risk – in particular physical risks, associated issues, events and scenarios to highlight potential business disruption. NatWest Group also enhanced elements of its risk management framework during 2021.

One such enhancement saw the integration of climate-related considerations into NatWest Group’s Change Impact Assessment (CIA) tool, which is used to assess the potential materiality of change programmes, including any possible financial and non-financial risks. Targeted assessments of climate risk were also carried out in 2021, with internal risk and control assessments considered in relation to NatWest Group’s property services and Retail Banking.





## 4.3

## Integration of climate-related risk factors into risk management: our progress and priorities continued

### Reputational risk

NatWest Group has a purpose-aligned reputational risk framework to identify, assess, manage, mitigate, monitor and report reputational risks. Reputational risks, or other risks that have the potential to materially damage NatWest Group's reputation, are risk assessed using standard NatWest Group-wide risk assessment tools, including risk and control assessments, top and emerging risk assessments, and the use of an impact classification matrix.

Reputational risk horizon scanning is performed by first line and second line of defence subject matter experts. NatWest Group's most material reputational risks, including those influenced by climate-related risks, are assessed, and monitored monthly by the Group Reputational Risk Committee.

We acknowledge that the provision of products and services to customers operating in environmental, social and ethical (ESE) sensitive sectors creates the potential for harm to NatWest Group's reputation through customer association. This includes association with customers that engage in activities linked to climate change.

**Our ESE risk framework** gives clear guidance when dealing with customers, projects and transactions that present heightened ESE risk and includes specific risk acceptance criteria (RAC) for nine sectors. Customers that engage in activities included within a sector RAC are subject to enhanced due diligence at onboarding and throughout the customer lifecycle.

In 2021, there were 305 customer ESE assessments completed and 166 of these fell within heightened climate risk sectors that have an ESE RAC in place (power, oil and gas, mining and metals, and forestry, fisheries and agribusiness).

The specialist team that maintains the ESE risk framework performs ongoing monitoring to determine whether any new sector RACs are required. The team also reviews ESE developments for sectors that already have an RAC in place to determine whether changes are required to the existing RACs.

In 2021, NatWest Group made enhancements to our power and mining and metals sector RACs that align to NatWest Group's coal phase out strategy. In early 2022 we made further enhancements to our oil and gas RAC, and concluded our credible transition plan assessment (see section 3.5.2).

**The Equator Principles** are a voluntary set of standards adopted by financial institutions for identifying, assessing and managing environmental and social risks in project-related transactions. NatWest Group has been a signatory since 2003, with all transactions that fall within the scope of the Principles subject to enhanced due diligence.

For projects identified as having exposure to heightened climate risk, a climate change risk assessment is required. This assessment examines both the impact that a project has on climate change and the climate change risk that the project is exposed to, such as exposure to extreme weather events. Enhanced due diligence includes a review of compliance with the Equator Principles framework, ensuring the requirements of the Equator Principles are embedded in the ESE risk management policy.

### Conduct risk and Regulatory compliance risk

In 2021, product governance processes and procedures were reviewed to ensure the integration of climate considerations. Enhancements were delivered, where necessary, to ensure processes remain fit for purpose and effective. This activity included, but was not limited to, updates to policies related to product governance.

The conduct risk and regulatory compliance risk teams, working with the climate risk team and franchise colleagues, introduced a set of questions to identify and assess climate-related risks ahead of product approval.

The questions build climate awareness among colleagues and seek to confirm that the product or service is aligned to NatWest Group's purpose. In addition, they help to articulate how climate-related risks have been considered as part of the product or service development and the mitigants adopted, which also helps to ensure that our decisions do not cause undue burden on our most vulnerable customers. Such risks cover the consideration of the impact of physical and transition risks.



## 5

# Metrics and Targets

The metrics and targets used to assess, monitor and manage relevant climate-related risks and opportunities.

- 5.1 Heightened climate-related risk sectors
- 5.2 Retail Banking residential mortgages – energy efficiency and flood risk assessment
- 5.3 Climate and Sustainable Funding and Financing
- 5.4 NatWest Group own green bond issuances
- 5.5 Capital markets transactions (financing)
- 5.6 NatWest Group own operational footprint
- 5.7 Estimates of financed emissions
- 5.8 Caution about climate-related data and methodology challenges

Key sources of estimation uncertainty: NatWest Group's 2021 Climate-related Disclosures Report requires the application of a number of judgements, assumptions and estimates – see section 5.8.

## 5.1 Heightened climate-related risk sectors

As part of its risk management activity, NatWest Group identified 13 sectors within its Wholesale portfolio as exposed to heightened climate-related risk impacts<sup>(1)</sup>. The residential mortgage portfolio has also been identified as exposed to heightened climate-related risk impacts<sup>(1)</sup> based on analysis conducted at a property level. The table opposite summarises loan exposures<sup>(2,3)</sup> to these sectors; the amounts reported include all lending to customers including climate and sustainable lending.

Total exposure to heightened climate-related risk sectors reduced by £4.9 billion during 2021, primarily reflecting:

- Residential mortgage portfolio exposure increased by £5.8 billion compared with 31 December 2020, following strong purchase demand in the UK supported by the extension of the stamp duty holiday. Within Retail Banking, gross new mortgage lending, excluding additional lending to existing customers, with an EPC rating of A or B was £3.2 billion during 2021<sup>(4)</sup>. This amounted to 14% of Retail Banking new mortgage lending in the period, where EPC information is available (refer to section 5.2 for EPC data availability and limitations).
- Wholesale sectors reduced by £10.7 billion compared with 31 December 2020 primarily reflecting net repayments and foreign exchange rate movements. Other specific sector comments:
  - The commercial real estate (CRE) sector decreased by £5.9 billion as a consequence of active portfolio management to rebalance the size and composition of the CRE portfolio.
  - Total exposure to the oil and gas sector decreased by £0.9 billion compared with 31 December 2020, due to net repayments in the course of normal business and the tighter lending criteria now in place for this sector. As at 30 December 2021 the exposure to oil and gas majors amounted to £0.8 billion (31 December 2020 – £1.3 billion), representing 25% of the total exposure to the oil and gas sector.
  - The housing associations sector increased by £0.7 billion primarily reflecting support for the development and refurbishment of affordable homes.

Section 3.5.2 outlines NatWest Group's current policies and approach to the oil and gas, and coal sectors.



	As at 31 December 2021 <sup>(*)</sup>				As at 31 December 2020			
	Loans <sup>(2)</sup> £m	Off-balance sheet <sup>(3)</sup> £m	Total sector exposure £m	Total sector exposure as a % of NatWest Group %	Loans <sup>(2)</sup> £m	Off-balance sheet <sup>(3)</sup> £m	Total sector exposure £m	Total sector exposure as a % of NatWest Group %
Residential mortgages <sup>(5)</sup>	194,011	16,827	210,838	42.4	190,516	14,557	205,073	40.5
Commercial real estate	18,261	7,126	25,387	5.1	23,414	7,831	31,245	6.2
Housing associations	8,319	6,014	14,333	2.9	7,927	5,749	13,676	2.7
Automotive	6,475	3,572	10,047	2.0	6,303	4,307	10,610	2.1
Power utilities	4,070	6,026	10,096	2.0	3,469	6,355	9,824	1.9
Land transport and logistics	4,593	3,257	7,850	1.6	4,802	3,979	8,781	1.7
Agriculture	5,084	1,017	6,101	1.2	5,337	1,252	6,589	1.3
Construction	4,615	1,724	6,339	1.3	5,024	2,089	7,113	1.4
Oil and gas	1,675	1,579	3,254	0.7	1,561	2,571	4,132	0.8
Airlines and aerospace	1,491	1,749	3,240	0.7	2,007	2,103	4,110	0.8
Building materials	1,326	1,478	2,804	0.6	1,710	1,728	3,438	0.7
Shipping	867	102	969	0.2	1,042	211	1,253	0.2
Chemicals	399	677	1,076	0.2	539	825	1,364	0.3
Mining and metals	382	758	1,140	0.2	450	755	1,205	0.2
<b>Total heightened climate-related risk sectors</b>	<b>251,568</b>	<b>51,906</b>	<b>303,474</b>	<b>61.0</b>	<b>254,101</b>	<b>54,312</b>	<b>308,413</b>	<b>60.9</b>
<b>Total NatWest Group</b>	<b>369,827</b>	<b>127,896</b>	<b>497,723</b>	<b>100</b>	<b>372,399</b>	<b>133,635</b>	<b>506,034</b>	<b>100.0</b>

1. Refer to section 4.3 for further details of the identification and review process.

2. Loans to customers and banks – amortised cost and FVOCI. This table shows gross loans only and excludes amounts that are outside the scope of the Expected Credit Loss (ECL) framework. Disposal Group assets are excluded from this table.

3. Off-balance sheet includes loan commitments and contingent liabilities.

4. EPC data included in the period for Scotland has only been available from August 2021 month-end, with Northern Ireland EPC data available only from November 2021 month-end. England and Wales EPC data has been available for the full period.

5. Includes a portion of secured lending in Private Banking, in line with ECL calculation methodology. Private Banking and RBS International mortgages are reported in UK, which includes crown dependencies, reflecting the country of lending origination.

(\*) Within the scope of EY assurance. Refer to page 1.



## 5.1 Heightened climate-related risk sectors continued

The following table provides further detail on the location, asset quality and maturity profile of loans to heightened climate-related risk sectors as at 31 December 2021.

Heightened climate-related risk sectors	30 December 2021										
	Loans by geography <sup>(1)</sup> £m				Loans by asset quality <sup>(2)</sup> £m				Loans by residual maturity £m		
	UK	RoI	Other Europe	RoW	AQ1-4	AQ5-7	AQ8-9	AQ10	<1yr	1-5yr	>5yr
Residential mortgages	187,847	6,164	-	-	101,008	88,464	2,489	2,050	3,611	12,160	178,240
Commercial real estate	17,383	107	413	358	5,036	12,292	490	443	5,402	11,553	1,306
Housing associations	8,319	-	-	-	8,122	197	-	-	143	1,374	6,802
Automotive	6,300	10	116	49	549	5,524	364	38	4,186	1,997	292
Power utilities	2,929	43	956	142	2,708	1,353	3	6	850	1,796	1,424
Land transport and logistics	4,036	9	291	257	2,337	2,063	154	39	1,033	2,472	1,088
Agriculture	4,851	184	9	40	437	4,372	142	133	1,248	1,790	2,046
Construction	4,559	15	20	21	406	3,610	315	284	1,336	2,813	466
Oil and gas	860	1	631	183	1,213	378	32	52	556	825	294
Airlines and aerospace	1,003	125	81	282	198	1,130	119	44	164	1,116	211
Building materials	1,311	8	7	-	189	1,045	77	15	616	552	158
Shipping	232	-	83	552	379	459	1	28	54	348	465
Chemicals	311	1	47	40	142	246	10	1	155	222	22
Mining and metals	204	1	68	109	196	176	6	4	271	87	24
<b>Total heightened climate-related risk sectors</b>	<b>240,145</b>	<b>6,668</b>	<b>2,722</b>	<b>2,033</b>	<b>122,920</b>	<b>121,309</b>	<b>4,202</b>	<b>3,137</b>	<b>19,625</b>	<b>39,105</b>	<b>192,838</b>
<b>Total NatWest Group</b>	<b>339,131</b>	<b>7,853</b>	<b>10,176</b>	<b>12,667</b>	<b>191,134</b>	<b>165,505</b>	<b>8,166</b>	<b>5,022</b>	<b>83,434</b>	<b>81,498</b>	<b>204,895</b>

1. Geography is based on the country of operation of the borrower.

2. Asset quality is based on Basel probability of default estimates where customers categorised as AQ1 have a very low probability of default in the next 12 months while AQ10 represents customers that are already in default.





5.2

# Retail Banking residential mortgages – energy efficiency and flood risk assessment

This section presents the energy efficiency and flood risk profile of Retail Banking residential mortgages, which represent 89% of NatWest Group’s residential mortgage portfolio.

## Energy efficiency

Supporting our UK mortgage customers to increase their residential energy efficiency and incentivising purchase of the most energy efficient homes is a key part of our climate ambition. In addition, we have an ambition that 50%<sup>(1)</sup> of our mortgage portfolio has an EPC rating of C or above by 2030.

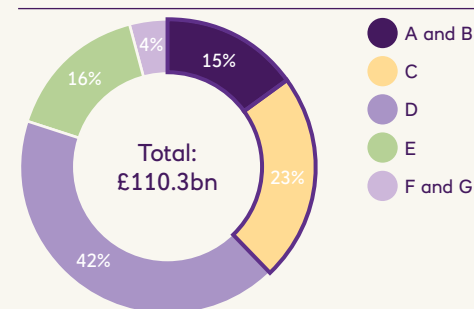
The charts opposite summarise the energy efficiency of the Retail Banking residential mortgage portfolio by EPC rating, with A indicating the best and G the worst in terms of energy efficiency. As at 31 December 2020, EPC data was available for England and Wales only. EPC data became available for Scotland in Q3 2021 and for Northern Ireland in Q4 2021 and is included in the 31 December 2021 analysis. The UK Retail Banking mortgage portfolio makes up £172.9 billion or 89% of the total residential mortgage portfolio of NatWest Group. As at 31 December 2021, 38%<sup>(\*)</sup> (31 December 2020 36%) of our Retail Banking residential mortgages portfolio that had EPC data available, was rated as EPC C or better.

EPC data is available for mortgages amounting to £110.3 billion as at 31 December 2021, analysed below (31 December 2020 – £92.9 billion – England and Wales only). This accounts for 64% of the UK Retail Banking mortgage portfolio (31 December 2020 – 66% – England and Wales only). Of these, £100.6 billion are owner occupied and £9.7 billion are buy-to-let.

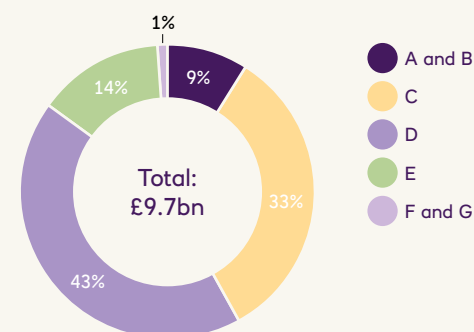
**Data source and limitations:** EPC data has been sourced from the Energy Performance of Buildings for England and Wales published by the Ministry of Housing, Communities and Local Government’s open data source. The data is drawn from EPCs issued for domestic and non-domestic buildings constructed, sold or let since 2008. It provides information on the energy efficiency ratings of domestic and non-domestic buildings during the energy assessment process. The registers do not hold data for every domestic and non-domestic building, or every building occupied by public authorities in England and Wales. For the mortgages on properties in Scotland we are sourcing EPC data from the Public Available Data Extracts site of the Energy Saving Trust, published by the Scottish Government. This data is updated quarterly and contains energy certificates from the start of 2013. NatWest Group continues to engage with the Government and regulators to enhance EPC rating data availability, and disclosure, including through the ‘Improving home energy performance through lenders’ consultation issued by the Department for Business, Energy and Industrial Strategy. An EPC is required when a building is constructed, sold or let, and is valid for 10 years. As a result, the EPC analysis on this page is based on EPC data at the time it was last available. EPC data for our Northern Ireland mortgage portfolio is provided by the Northern Ireland Department of Finance.

1. Percentage of aggregate UK mortgage exposure.  
 (\*) Within the scope of EY assurance. Refer to page 1.

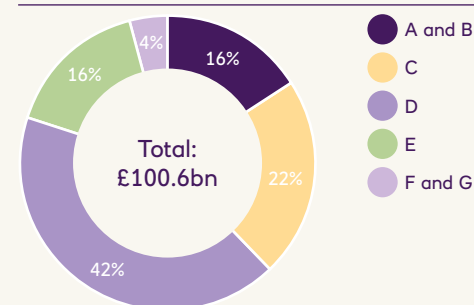
Total mortgages with EPC data available for December 2021



Buy-to-let mortgages with EPC data available for December 2021



Owner occupied mortgages with EPC data available for December 2021





5.2

# Retail Banking residential mortgages – energy efficiency and flood risk assessment continued

## Flood risk

The map opposite represents the proportion of UK properties at high and very high risk of flood, as a percentage of Retail Banking mortgage lending. The flood analysis presented is based on present day risk levels which take into account the probability of flood events occurring, and covers c.97% of the Retail Banking mortgage book.

On a total volume basis, Retail Banking mortgages at high risk of flooding are 3.1% of the portfolio and those at very high risk are 0.1% of the portfolio. This is comparable to the overall UK volume-based analysis with high of 3.0% and very high of 0.1%.

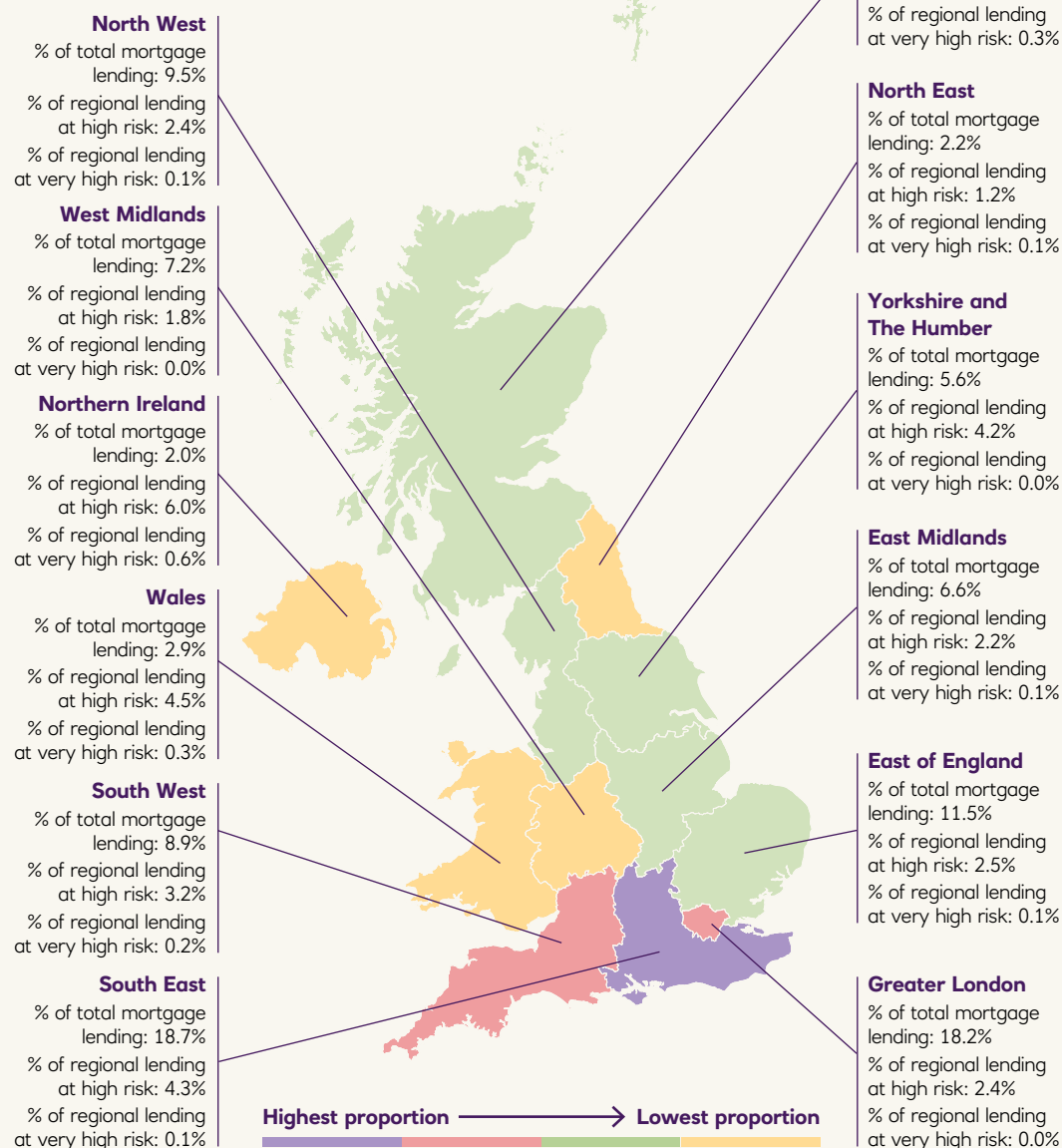
**Data for flood risk analysis:** We are using the Airbus Geospatial Financial Hub (GFH) to analyse the potential financial impact of climate change on individual properties in the Retail Banking mortgage portfolio. The GFH combines detailed data from multiple sources to enable assessment of climate change impacts at individual property level. Risks analysed include surface flooding, rivers, ground water as well as coastal flooding and clay-related shrink-swell. Airbus gathers multiple geospatial datasets, derived from industry specialists including Ordnance Survey, JBA Risk Management and Property Risk Inspection. It also calculates the physical risks to properties now and as global temperatures rise using climate data from the UK Climate Projections 2018 (UKCP18).

**Flood scores:** JBA model flood hazard by looking at the four different types of flooding (surface water, ground water, coastal and river) and calculating the frequency and depth of flooding nationally to derive flood maps. Flood defences are considered where available. Flood scores, based on JBA’s flood matrix, are allocated per property based on the potential flood damage to property dependent on the type, frequency and depth of flooding modelled across different return periods; for example, coastal flooding will involve salt water, which can cause more property damage than river flood water and therefore has a higher score than the equivalent river flood score. The scoring ranges from 0 to 53, with 0 being lowest and 53 being the highest risk. JBA’s flood scores in the UK are widely used by insurers, lenders, property search/conveyancers and valuation surveyors, providing a consistent view across the whole homebuying and property management process. We have included properties with a score of 11 and above within the high risk category and those with a score of 31 and above within the very high risk category after flood mitigants are taken into account. We understand this basis to be consistent with insurers’ assessment and grading of high flood risk.

(\*) Within the scope of EY assurance. Refer to page 1.

## Proportion of properties at high and very high risk of flooding, by region(\*)

The shades in the image represent the level of flood risk in the region based on value of lending and proportion of properties at high and very high risk of flood, with lightest (yellow) being the lowest and darkest (purple) being the highest.





## Climate and Sustainable Funding and Financing

NatWest Group has an ambition to play a leading role in championing climate solutions by supporting its customers' transition towards a net-zero, climate-resilient and sustainable economy through Climate and Sustainable Funding and Financing. NatWest Group uses its CSFI criteria<sup>(1)</sup> to determine the assets, activities and companies that are eligible to be counted towards its Climate and Sustainable Funding and Financing targets.

During H1 2021 NatWest Group exceeded its 2020-21 target of providing an additional £20 billion of Climate and Sustainable Funding and Financing in the two years ended 2021. In October 2021, NatWest Group announced a target to provide an additional £100 billion of Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.

In the full year ended December 2021 NatWest Group completed £17.5 billion<sup>(\*)</sup> of Climate and Sustainable Funding and Financing. This comprised £9.7 billion in NatWest Markets, £5.2 billion in Commercial Banking, £1.5 billion in RBS International and £1.1 billion in Retail Banking.

In the half-year ended December 2021 NatWest Group completed £8.1 billion of Climate and Sustainable Funding and Financing, which will contribute towards the £100 billion target. This comprised £3.3 billion in NatWest Markets, £2.7 billion in Commercial Banking, £0.9 billion in RBS International and £1.1 billion in Retail Banking.

The table below summarises NatWest Group Climate and Sustainable Funding and Financing activity. The increase in green public bonds, green private placements and sustainability linked bonds during the year ended 31 December 2021 reflects the notable increase in both the supply of, and the demand for, such instruments and underwriting commitments. Sustainability linked loan growth in the year ended 31 December 2021 follows the increased volume of borrowers seeking to reflect sustainability objectives and targets in their loan financing.

	Full year ended 31 December 2021 £m	Half year ended 31 December 2021 £m	Half year ended 30 June 2021 £m	Full year ended 31 December 2020 £m
<b>Climate and Sustainable Funding and Financing<sup>(1)(7)</sup></b>				
Green wholesale lending <sup>(2)</sup>	2,085	1,167	918	2,528
Residential mortgages with EPC A or B <sup>(3)</sup>	1,111	1,111	-	-
Green public bonds and green private placements <sup>(4)</sup>	8,227	2,777	5,450	5,030
Green loan underwriting <sup>(4)</sup>	153	-	153	-
Sustainability-Linked Loans <sup>(5)</sup>	3,821	2,115	1,706	2,633
Sustainability-Linked Bonds and private placements <sup>(5)</sup>	201	201	-	-
Other wholesale general purpose lending or wider financing within the CSFI criteria <sup>(6)</sup>	1,948	708	1,240	1,823
<b>Total</b>	<b>17,546</b>	<b>8,079</b>	<b>9,467</b>	<b>12,014</b>

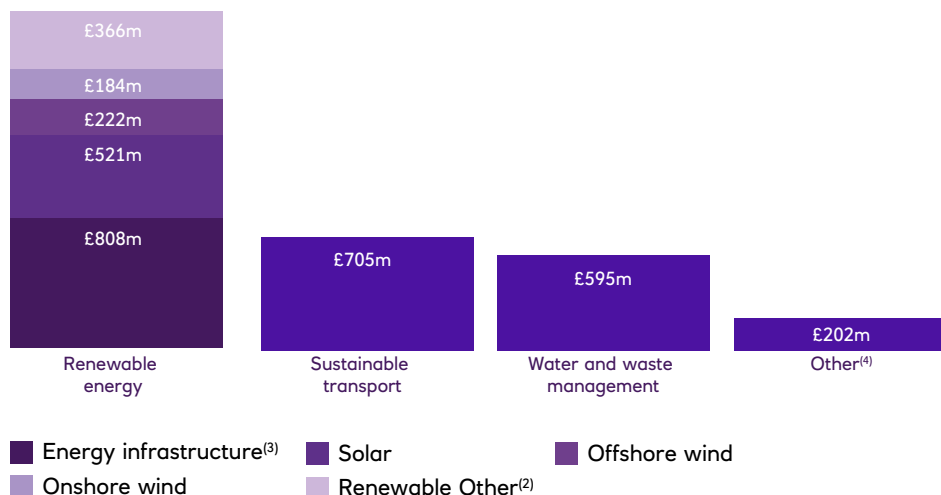
- For the year ended 31 December 2021, the NatWest Group 2021 CSFI criteria published in February 2021 has been used to determine the assets, activities and companies that are eligible to be counted. This CSFI criteria includes lending to personal customers for properties with EPC A and B ratings, which wasn't included in the 2020 CSFI criteria used to determine the assets, activities and companies that were eligible to be counted towards the previous £20 billion Climate and Sustainable Funding and Financing target between 2020 and 2021. As a result, personal lending has only been included for the six months ended 31 December 2021, when the 2021 CSFI criteria became applicable. NatWest Group's own Green, Social and Sustainability (GSS) bond issuances are not included in the table above. The revised CSFI criteria published in October 2021 will be used from 1 January 2022. Full details of the CSFI criteria can be found at natwestgroup.com
- Specific purpose lending to wholesale customers within the scope of the CSFI criteria. Lending amounts represent total commitment and include any undrawn portion of committed credit limits.
- Amounts include Retail Banking EPC A and B rated mortgages only. Refer to section 5.2 for data availability and limitations related to EPC data.
- Underwriting of specific use of proceeds debt capital market issuances for project expenditures, as well as green loan commitments when customers meet the CSFI criteria. Amounts represent the NWM Group share of the notional (total underwriting amount lead managed or placed by NWM Group), based on the number of underwriters within a specific deal. During the year ended 31 December 2021 53 green bonds and private placements totalling a notional amount of £38.7 billion (36 deals, £22.7 billion during full year 2020), account for c.16% of the total lead managed or placed transactions by NWM Group during the period (c.4% for full year 2020).
- Sustainability-Linked Loans, Bonds and private placements made to customers, in line with Loan Market Association (LMA) Sustainability Linked Loan principles and International Capital Market Association (ICMA) Sustainability-Linked Bond principles where deal targets include green performance indicators, aligned to CSFI criteria.
- In addition to transactions that directly meet CSFI criteria based on use of proceeds for green purposes, the CSFI criteria also includes certain general purpose loans and wider financing (including bonds and private placements) to a customer who can evidence (to NatWest Group's satisfaction through review of the customers' profit and loss statement) 50% or more of revenues from the categories and sectors outlined in the criteria. In the year ended 31 December 2021, the £1,948 million included above comprised loans of £1,518 million and bonds and private placements of £430 million.
- Amounts included for Half Year ended 30 June 2021 represent Climate and Sustainable Funding and Financing contribution to the 2020 - 2021 target of £20 billion. Amounts included for Half Year ended 31 December 2021 represent Climate and Sustainable Funding and Financing contribution towards the £100 billion target, effective from 1 July 2021.

(\*) Within the scope of EY assurance. Refer to page 1.

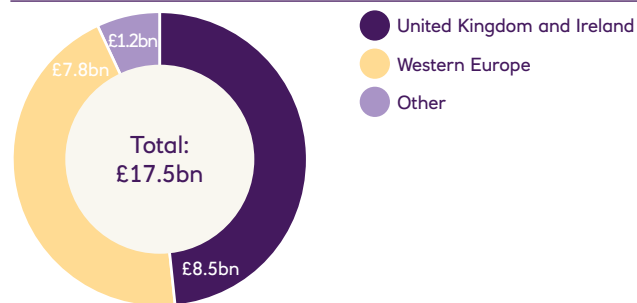
5.3

# Climate and Sustainable Funding and Financing continued

Wholesale loans by CSFI criteria category in 2021<sup>(1)</sup>



Geographical split of Climate and Sustainable Funding & Financing in 2021<sup>(5)</sup>



Notes:

- In the above chart, loans funded since 1 July 2021 and therefore contributing towards the £100 billion target were: renewable energy £859 million, sustainable transport £676 million, water and waste management £225 million, other £115 million. Sustainability Linked Loans are excluded from this chart.
- Renewable Energy – Other primarily relates to lending to funds who invest in multiple types of renewable energy.
- Energy infrastructure includes lending for companies and assets relating to electricity transmission and distribution.
- Other consists of energy efficiency £138 million, low carbon and offsetting technology £39 million and built environment £25 million.
- Since 1 July 2021, UK and Ireland £5.5 billion, Western Europe £1.9 billion and Other £0.6 billion.



Lightsource bp is a global leader in the development and management of solar energy projects. A 50:50 joint venture with bp, the company’s 700 industry specialists work across 16 countries to help deliver affordable and sustainable solar power for businesses and communities around the world.

In 2021, Lightsource bp announced an ambitious new growth strategy, which included increasing the total capacity target of its projects, from 10 gigawatts by 2023 to 25 gigawatts by 2025 – enough to power the equivalent of 8.4 million homes.

With NatWest Group having supported Lightsource bp consistently throughout its journey from a UK start-up 10 years ago to its emergence as a major renewable energy firm, the Lightsource bp management team sought our help again to arrange new funding.

After negotiations, NatWest Group, together with a number of leading financial institutions, agreed a new \$1.8 billion revolving credit and trade finance facility to support Lightsource bp’s new global strategy.

In addition to supporting Lightsource bp’s ambitions to increase solar energy capacity, the new financing will also go towards building an extra nine gigawatts of solar farms exclusively for bp, which aims to increase its renewable energy capacity 20-fold by 2030. Furthermore, Lightsource bp’s growth is also expected to create over 500 new jobs within the company over the next four years.



5.4

# NatWest Group own green bond issuances

In November 2019 we established our green, social and sustainability bond framework<sup>(1)</sup> (the ‘GSS framework’), which was further updated in October 2020 to include a wider range of eligible loans to support specified use of proceeds bonds that have a positive environmental and/or social impact.

Green and social issuance represented approximately 43% of NatWest Group’s senior unsecured funding in 2021, demonstrating our ongoing commitment to the growth of GSS bonds and providing further diversification to our investor base.

To date, NatWest Group has issued two green bonds under its GSS framework, both of which directly support our commitments to finance more renewable energy projects and provide more mortgage funding for energy efficient homes.

## Renewable energy green bond (\$600 million, £494 million equivalent, issued May 2020, callable May 2023)

We issued our inaugural green bond into the US onshore market, the first green USD offering issued by a UK bank. Proceeds have been fully allocated since issuance and used to refinance a variety of renewable energy loans across the UK. As the selected facilities are repaid, we expect to select new facilities in line with the GSS framework. The portfolio capacity<sup>(2)</sup> attributed to NatWest Group from these renewable energy projects is estimated at 440MW with an estimated 145ktCO<sub>2</sub>e of emissions avoided<sup>(3)</sup>.

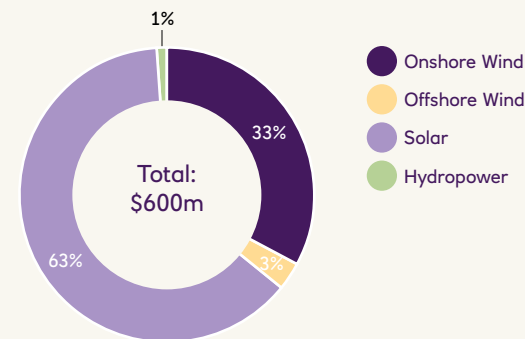
Full details of this issuance can be found in the Green Bond Impact Report<sup>(1)</sup>.

## Green mortgages green bond (£600 million, issued November 2021, matures November 2028)

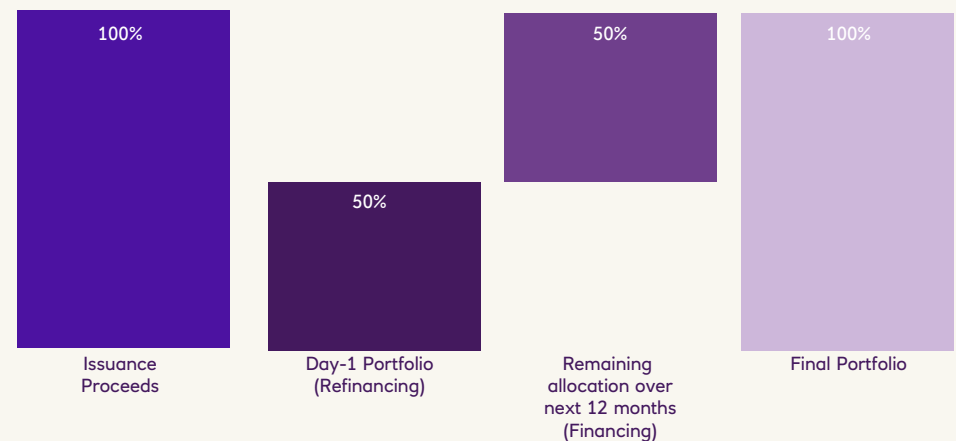
Since October 2020, NatWest Group has offered new green mortgage products with lower interest rates for customers purchasing and re-mortgaging more energy efficient homes (EPC A or B). In line with the GSS framework, proceeds from this issuance were used to refinance a selected pool of green mortgages located in the UK. Unallocated proceeds will be held at our discretion, in cash or short term liquid investments, and will be utilised to select additional Green Mortgages, which will represent the ‘financing’ portion of the portfolio, with full allocation expected within 12 months. Further detail on this issuance can be found in the Green Bond Allocation Report<sup>(1)</sup>.

1. The GSS framework and Second Party Opinion as well as Green Bond Impact and Allocation reports can be found at natwestgroup.com
2. Total portfolio capacity includes the operational project capacities attributed to NatWest Group determined according to the method set out the Green Bond Impact Report.
3. See the Emissions Avoided section of the Green Bond Impact Report for details of how this was calculated. Emissions avoided reflects the capacity attributed to NatWest Group.

## Renewable energy green bond – portfolio by renewable technology



## Green mortgages green bond – allocation of proceeds

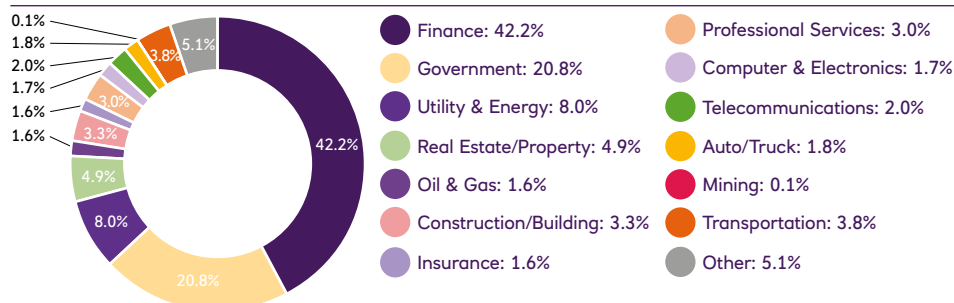


5.5

# Capital markets transactions (financing)

NWM Group supports customers through capital markets by providing an integrated proposition across financing, solutions and advisory services. We are a leading partner for our customers, helping them to access global debt capital markets across a wide variety of products, including bonds, loans, commercial paper, medium-term notes and private placements as well as bespoke financing solutions and primary lending products. As part of capital markets transactions, NWM Group acts as a facilitator<sup>(1)</sup> to support customers to issue debt instruments. These transactions are not recorded on balance sheet since the climate-related exposure is held by the investor who places the bonds or private placements in their portfolio. The chart below shows NWM Group’s lead management activity during 2021.

NWM Group’s Underwriting Business by Sector in 2021



The table below shows value for financing related to mining, oil and gas, as well as utility and energy sectors. These are identified as high risk as they are emissions intensive and therefore particularly exposed to rising carbon costs; however, those deals meeting the CSFI criteria have been shown separately given their decarbonisation scope/trajectory:

Sector	2021 £m	2020 £m
Utility and energy	5,706	5,761
<i>Of which fall under the CSFI criteria</i>	899	2,931
Mining	94	270
Oil and gas	1,166	589
Grand total of all industries (NWM Group apportioned value)	71,210	77,471

**Basis of Reporting:** The data is sourced from Dealogic, and uses the Dealogic General and Specific Industry Group classifications. Financing volumes are reported on a manager-proceeds basis including bonds and securitised bonds; no modifications have been made by NWM Group. This data represents a third-party view of our financing and is subject to Dealogic’s league table methodology, which pro-rates volume across lead-managers.

1. The Partnership for Carbon Accounting Financials (PCAF) discussion paper on capital markets, issued in November 2021 defines a facilitator as: ‘An institution (usually large international banks) that helps an entity (in this paper only corporates are in scope) to issue equity or debt instruments in the capital markets. The facilitator may carry out activities including advising the issuing entity on structure, pricing, and process; preparing materials for and engaging with investors; and arranging and guiding issuing entities on a roadshow. Formal roles encompassed by this term include Lead/Active/Passive Bookrunner(s) and Lead/Co-Manager(s).’



## Gasunie

### Supporting energy transition through transparent sustainable finance



Gasunie is a Dutch state-owned gas transmission system operator (TSO), operating infrastructure for the large-scale transport, storage and conversion of gas throughout the Netherlands and northern Germany.

Gasunie is playing a central role in the energy transition by investing in areas such as green gas, hydrogen, heating, CCUS (carbon capture, utilisation and storage) and LNG (liquefied natural gas).

After signing a sustainability-linked revolving credit facility in 2020 with its relationship banks, Gasunie was looking to further align its financing strategy with its long-term strategic and sustainability goals and, in doing so, broaden its ESG financing sources.

The company turned to NatWest Group to help establish a sustainability-linked bond framework, the first European gas TSO to do so.

In its role as Joint Sustainability Structuring Advisor, NatWest Group worked closely with Gasunie to identify key performance indicators for the framework and align it with the International Capital Market Association’s sustainability-linked bond principles.

NatWest Group acted as joint bookrunner for the subsequent 15-year €300 million sustainability-linked bond issuance. The offer attracted significant investor interest, with orders exceeding €1 billion, enabling Gasunie to tighten pricing for its inaugural sustainability-linked bond.

5.6

## NatWest Group own operational footprint

During 2021<sup>(1)</sup>, we reduced our direct own operations<sup>(2)</sup> carbon footprint<sup>(3)</sup> 46% against 2019 baseline, and increased our renewable electricity consumption to 97%.

### Net-zero carbon<sup>(3)</sup>

We plan to reduce the carbon footprint for our wider operational value chain by 50% by 2030 and achieve net zero by 2050.

While there was previously no standard definition of net zero, as part of COP26, in October 2021 the SBTi released the ‘SBTi Corporate Net Zero Standard’, the world’s first net zero framework which encapsulates the full value chain of Scope 3 and deep decarbonisation targets. To support NatWest Group’s public commitments to the Net Zero Banking Alliance, we plan to align to the SBTi’s definition for own operations and also account for the wider value<sup>(4)</sup> chain, including suppliers. We have a target to reduce our direct own operations carbon footprint by 50% by 2025 (2019 baseline) and plan to halve the carbon footprint of our wider operational value chain by 2030, with minimum 90% decarbonisation by 2050 for all emissions (refer section 5.7 for approach to financed emissions). We intend to neutralise the remaining 10% of emissions with high quality internationally recognised carbon credits<sup>(5)</sup> to achieve net zero. We plan to continue making significant emission reductions within our own operations, alongside investments to mitigate GHG emissions through carbon removal projects, programmes and solutions that provide benefits to climate, especially those that generate additional co-benefits for people and nature, in line with SBTi guidance.

As the first part of our journey, we are disclosing an initial view of our upstream emissions for our 2021 footprint, with a plan to refine this view and disclose our downstream emissions for 2022. Further, from 2022, NatWest Group will be using the outputs from our 2021 energy audits to run a programme to improve our building EPC ratings, reducing our climate impact.

1. Our own operational footprint reporting year runs from October 2020 to September 2021.
2. NatWest Group defines direct own operations as our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It therefore excludes upstream and downstream emissions from our value chain.
3. Carbon / carbon footprint in this section refers to GHG emissions reported as carbon dioxide equivalent.
4. Upstream operational value chain emissions are all the indirect Scope 3 emissions required for our operations to occur, including emissions from our suppliers, energy creation and transport to our facilities, and our mail. Downstream operational value chain emissions are all of the indirect Scope 3 emissions associated with our operations during and after serving our customers, including customer transport to and from our facilities, how our products are used and how they are disposed of.
5. NatWest Group used carbon credits for our 2021 achievement. These projects remove carbon from the atmosphere through tree planting and are dual-validated and verified under the Verified Carbon Standard (VCS) and Climate, Community and Biodiversity Standards (CCB).
6. NatWest Group defines Climate Positive as reducing location-based emissions from our direct own operations 25% from our 2019 baseline and using carbon credits to neutralise our baseline market-based emissions of 120,000 tCO<sub>2</sub>e.

Our 2021 total market-based operational footprint 66,149 tCO<sub>2</sub>e covers Scopes 1, 2 and our direct own operation upstream Scope 3. This includes emission reductions from the use of green electricity covering 97% of our consumption through green tariffs and renewable electricity certificates, but in accordance with the Greenhouse Gas Protocol, it does not include emissions reduction from the use of carbon credits. Further detail on our decarbonisation plans can be found in the Energy and Carbon section on page 71.

When announcing our Climate Positive<sup>(6)</sup> ambition in February 2020, the wide-ranging impacts from COVID-19 could not have been anticipated. By procuring a minimum 120,000 tCO<sub>2</sub>e in carbon credits, in line with our market-based 2019 baseline, while simultaneously reducing emissions from our own operations, we have already achieved our ambition to be Climate Positive in 2021 for our direct own operations. We used 120,000 tCO<sub>2</sub>e of internationally recognised carbon credits which add environmental, social and community benefits compared to the 2021 residual market-based 66,149 tCO<sub>2</sub>e Scope 1, 2 and 3 emissions. We had previously targeted a 25% reduction in emissions from our direct own operations by 2025 (2019 baseline) but are now increasing this to 50% as we seek to build on the emissions reductions that have already occurred.





5.6

# NatWest Group own operational footprint continued

The charts opposite show our direct own operational emissions and carbon credits during 2021 and our preliminary upstream operational value chain emissions, which we are reporting for the first time.

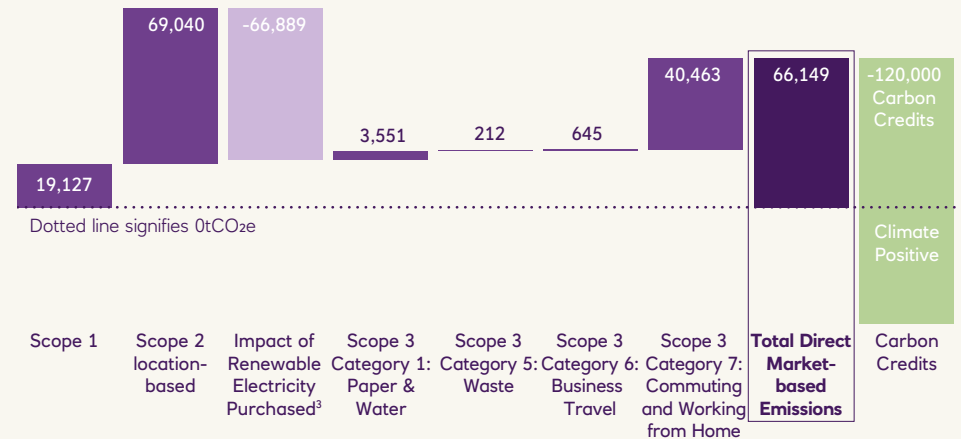
## Own operations reporting boundary and scope

NatWest Group utilises the Greenhouse Gas Protocol to measure its carbon footprint across Scopes 1, 2 and 3. The latter has 15 categories – the most relevant of which are captured within our own operations activities other than category 15 which is for financed emissions.

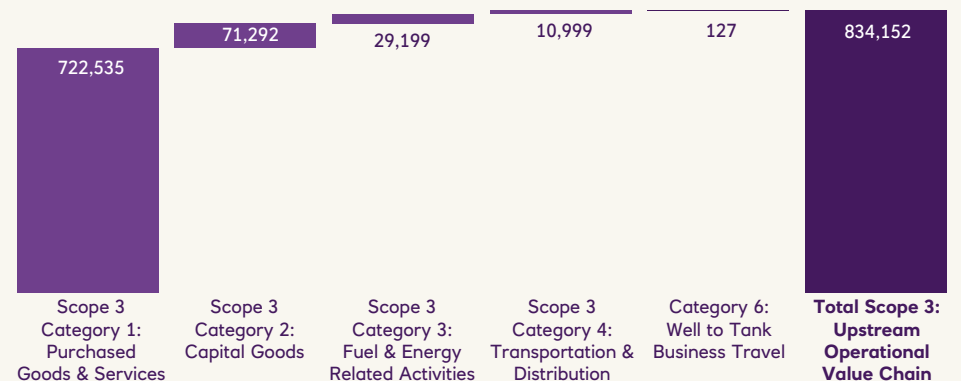
Scope of direct operations <sup>1</sup>	Scope of upstream operational value chain
<p>Scope 1: all</p> <p>Scope 2: all</p> <p>Scope 3</p> <ul style="list-style-type: none"> <li>Category 1: paper and water only.</li> <li>Category 5: waste (UK and RoI).</li> <li>Category 6: business travel.</li> <li>Category 7: employee commuting and working from home.</li> </ul>	<p>Scope 3</p> <ul style="list-style-type: none"> <li>Category 1: all purchased goods and services.</li> <li>Category 2: capital goods, such as IT equipment.</li> <li>Category 3: fuel and energy related activities not in Scope 1 or 2.</li> <li>Category 4: upstream transportation and distribution, such as our postage.</li> </ul>
Scope of downstream operational value chain	Preliminary upstream operational value <sup>2</sup> chain data and limitations
<p>Scope 3</p> <ul style="list-style-type: none"> <li>Category 9: downstream transportation and distribution, such as customers commuting to and from our facilities.</li> <li>Category 11: use of sold products, such as debit or credit cards used by our customers.</li> <li>Category 12: end of life treatment of sold products, such as disposal of credit cards.</li> <li>Category 13: downstream leased assets.</li> </ul>	<ul style="list-style-type: none"> <li>The preliminary calculations for our upstream operational value chain have used greenhouse gas protocol compliant methodologies.</li> <li>Category 3 emissions are calculated using actual data and UK Government emission factors.</li> <li>Category 4 emissions use customer numbers and postage values to calculate the quantity of post sent to our customers.</li> <li>Category 1 and 2 emissions have been calculated using spend data and publicly sourced sector-specific emission factors.</li> <li>Data improvement programmes to review our preliminary calculations may cause these figures to update in the future.</li> </ul>

1. This is the scope for our 2020 net zero and 2021 Carbon Positive achievements.  
 2. Our operational value chain excludes, processing of our sold goods, as our products are not manufactured. Included within our reporting is emissions from assets we lease and occupy, as well as franchise emissions.  
 3. Scope 2 location-based emissions are mainly from electricity, calculated using the national grid factors. As electricity makes up the majority of our Scope 2 emissions, our use of renewables drives significant reduction as shown in the diagram.

2021 Breakdown of Direct Emissions from our Own Operations (tCO<sub>2</sub>e)



Preliminary 2021 Breakdown of Upstream Operational Value chain Emissions (tCO<sub>2</sub>e)







## 5.6 NatWest Group own operational footprint continued

The below table sets out our progress towards specific own operational targets and ambitions.

Target	KPI	Absolute or Intensity	Target Year	Baseline Year	2020	2021
<b>Carbon and Energy</b>						
100% renewable electricity for global operations (RE100) <sup>(1)</sup>	% global electricity	Absolute	2025	Not applicable	89%	97%
50% emissions reduction from direct own operations	% total direct own operation emissions	Absolute	2025	2019	-35%	-46%
40% energy productivity improvement (EP100)	% total energy	Absolute	2025	2015	36%	36%
<b>Electric Vehicles (EV100)</b>						
Transition our fleet vehicles to electric	% of fleet converted to electric	Absolute	2025	Not applicable	0%	1%
Install EV chargers in 15% of car park spaces across our portfolio	Number of chargers installed	Absolute	2025	Not applicable	22	289
<b>Resource Use</b>						
Maintain zero waste to landfill (UK & Ireland)	% diverted from landfill	Absolute	2025	2019	99.9%	99.9%
Zero waste <sup>(2)</sup> where possible	% recycled and reused	Absolute	2025	Not applicable	79%	88%
Reduce paper consumption 70%	% paper reduced	Absolute	2025	2015	-50%	-65%

### Notes:

The historic values reported in the table above (and charts on page 69) are updated from values we reported in 2020. This is due to updated bills, data provision and extrapolations as well as bringing our emissions associated with working from home and commuting into our reporting scope. Our data is externally verified annually by Ernst and Young, with Scope 1 and 2 moved to reasonable assurance in 2021 and Scope 3 limited assurance. Refer to Streamlined Energy and Carbon Reporting and Emissions Methodology section on page 70 for further details on the basis of GHG emissions calculation.

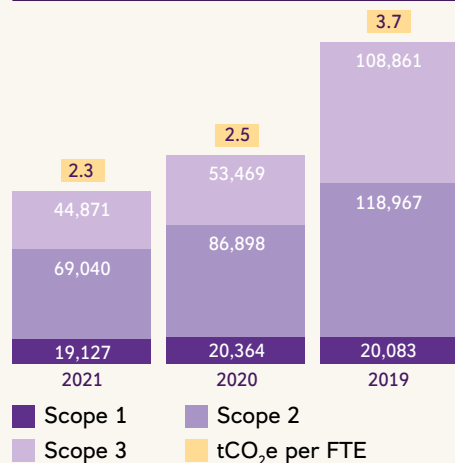
- Using green tariffs and purchased renewable electricity certificates.
- Increase resource efficiency and the circular economy to ensure resources are valued and nothing is wasted. Further, zero waste will require us to maintain our zero landfill to waste achievements, with a goal to divert 95% of all waste from landfill and incineration, where possible.



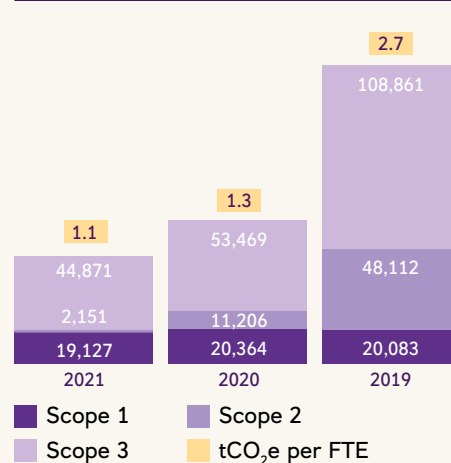
# 5.6 NatWest Group own operational footprint continued

These charts present the 2019 to 2021 trend related to NatWest Group’s own direct operational GHG emissions, energy consumption, paper consumption, water consumption and waste generated.

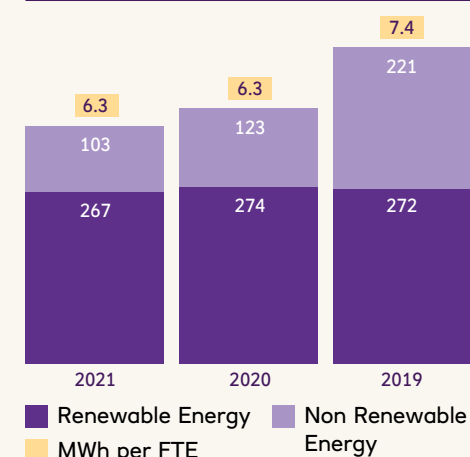
Location Based GHG Emissions (tCO<sub>2</sub>e)<sup>(1,2)</sup>



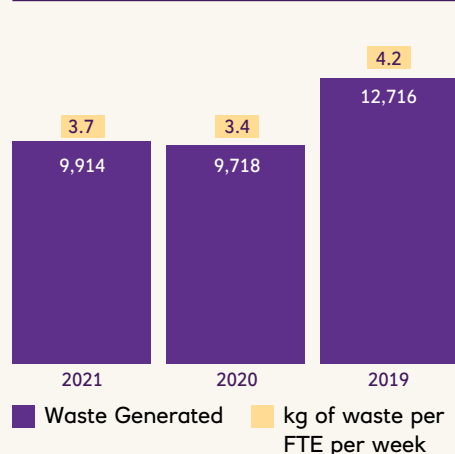
Market Based GHG Emissions (tCO<sub>2</sub>e)<sup>(1,2)</sup>



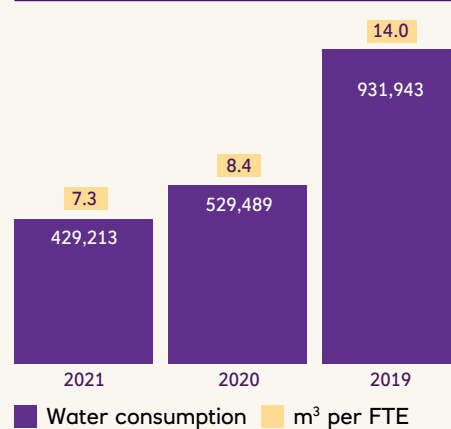
Energy consumption (GWh)<sup>(2)</sup>



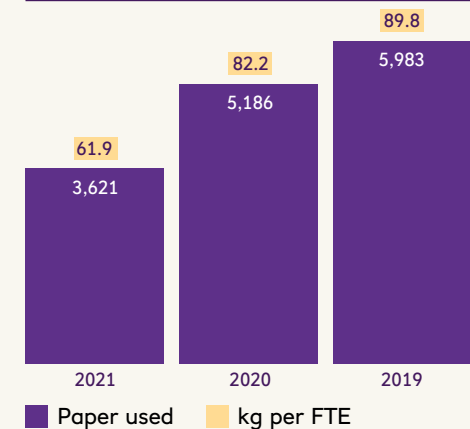
Waste Generated (t)<sup>(2,3)</sup>



Water consumption (m<sup>3</sup>)<sup>(2)</sup>



Paper used (t)<sup>(2)</sup>



1. Location-based GHG emissions method reflects the average emissions intensity of grids on which energy consumption occurs (using grid-average emission factors). Market-based emissions reflect emissions from electricity procured from sources NatWest Group has selected, including renewable energy. As renewable sources have nearly zero emissions associated with energy generation, market-based emissions are lower than location-based emissions. Refer to Streamlined Energy and Carbon Reporting and Emissions Methodology section on page 70 for further details on the basis of GHG emissions calculation.

2. Units of measure: tCO<sub>2</sub>e is metric tonnes of carbon dioxide equivalent; GWh is Gigawatt hours of energy, MWh is Megawatt hours of energy; t is a metric tonne; m<sup>3</sup> is a cubic metre; FTE is a full-time employee equivalent.

3. Waste generated comprises: Recycled (2021 8,716t, 2020 7,672t, 2019 9,842t), Incineration (2021 1,172t, 2020 2,030t, 2019 2,832t), Reused (2021 17t, 2020 9t, 2019 0t), Landfilled (2021 9t, 2020 7t, 2019 42t)



## 5.6 NatWest Group own operational footprint continued

### Streamlined Energy and Carbon Reporting

Greenhouse gas (GHG) emissions	2021		2020	
	UK and offshore <sup>(1)</sup> area	Global total (excluding UK and offshore) <sup>1</sup>	UK and offshore <sup>(1)</sup> area	Global total (excluding UK and offshore)
Emissions from the combustion of fuel and operation of any facility (Scope 1 <sup>(2)</sup> Direct) CO <sub>2</sub> e (tonnes) <sup>(*)</sup>	17,464	1,663	18,443	1,921
Emissions from the purchase of electricity, heat, steam or cooling by the company for its own use (Scope 2 <sup>(3)</sup> Indirect) Location-based CO <sub>2</sub> e emissions (tonnes) <sup>(*)</sup>	52,735	16,305	63,841	23,057
Total gross Scope 1 & Scope 2 (location-based) emissions CO <sub>2</sub> e (tonnes) <sup>(*)</sup>	70,199	17,968	82,284	24,977
Energy consumption used to calculate above emissions (kWh)	329,396,747	40,652,346	347,909,621	49,510,271
Intensity ratio: Location-based CO <sub>2</sub> e emissions per FTE (Scope 1 & 2) (tonnes/FTE)	1.71	1.03	1.83	1.37
Scope 3 <sup>(4)</sup> CO <sub>2</sub> e emissions from direct operations, paper, water, waste, business travel, commuting and working from home (tonnes) <sup>(*)</sup>	36,016	8,855	38,502	14,967
Total gross CO <sub>2</sub> e emissions for direct operations (Scope 1, location-based Scope 2, Scope 3) (tonnes) <sup>(*)</sup>	106,215	26,823	120,787	39,944
Intensity ratio: Location-based CO <sub>2</sub> e emissions per FTE (Scope 1, 2 & direct operations Scope 3) (tonnes/FTE)	2.59	1.54	2.69	2.19
Scope 2 <sup>(5)</sup> (Indirect) Market-based CO <sub>2</sub> e emissions (tonnes) <sup>(*)</sup>	12	2,139	8,860	2,346

#### Emissions methodology and basis of preparation

**Boundary:** We have reported on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our reporting year runs from October 2020 to September 2021. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control.

**Calculation:** Emissions have been calculated using the Greenhouse Gas Protocol Corporate Standard and associated guidance and include all greenhouse gases, reported in tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) and global warming potential values. When converting data to carbon emissions, we use Emission Factors from UK Government Emissions Conversion Factors for Company Reporting (Department for Business, Energy & Industrial Strategy, 2021), CO<sub>2</sub> emissions from fuel combustion (International Energy Agency, 2021) or relevant local authorities as required. NatWest Group utilises a third-party software system, Envizi, to capture and record our environmental impact and ensure audit requirements are met. All data is aggregated at a regional level to reflect the total regional consumption. The regional consumption results are then collated to reflect the total NatWest Group footprint. CO<sub>2</sub>e values are attributed to these sources via an automatic conversion module in the Envizi system. For more information, please see the own operational footprint page at [natwestgroup.com](https://natwestgroup.com).

- Offshore area as defined in The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018. This includes Jersey and Guernsey but not our overseas sites in America, EMEA and Asia-Pacific. These are included in the global total (excluding UK and offshore). Refer to Streamlined Energy and Carbon Reporting and Emissions Methodology section on page 70 for further details on the basis of GHG emissions calculation.
  - Scope 1 emissions from natural gas, liquid fossil fuels, fluorinated gas losses and owned/leased vehicles.
  - Scope 2 emissions from electricity, district heating and cooling used in NatWest Group premises.
  - Scope 3 emissions from paper and water, category 5: waste (UK and RoI only), category 6: business travel including air, rail, hired vehicles and our grey fleet, category 7: employee commuting and working from home.
  - Market-based Scope 2 emissions. UK market-based emissions have dropped 99% (to 12 tCO<sub>2</sub>e) as we have procured 100% of the electricity we have consumed from renewable sources using green tariffs and renewable electricity certificates, whereas in 2020, we sourced 90% of our UK electricity from renewable sources, with the remaining 10% accounting for 8,848 tCO<sub>2</sub>e. The 12 tCO<sub>2</sub>e arises from district cooling and district heating, which is used at only a few sites.
- (\*) Within the scope of EY assurance (2021 only). Refer to page 1.

5.6

# NatWest Group own operational footprint continued

## Sustainable resource use

### Energy and carbon

In 2021, we reduced our direct operational Scope 1, 2 and 3 (business travel, paper, waste, water, commuting and work from home) emissions by 46% against a 2019 baseline. This has been through a number of emission reduction activities as well as impacts from COVID-19.

### Energy:

Despite COVID-19, a number of key projects were still completed in 2021. Notable highlights include:

- **Renewable power:** NatWest Group has partnered to develop a solar generation facility in the UK under a corporate power purchase agreement. The facility is due to start generating low-carbon electricity for the bank from 2024 and will bring additional renewable generation capacity online to facilitate the decarbonisation of the UK power grid. Once constructed, the facility is expected to generate 40% of NatWest’s electricity demand in the UK.
- **Branch investments:** The high-performance specification implemented for a branch fit-out in Bristol meant that we achieved an energy performance rating of ‘B’ and achieved Royal Institute of Chartered Surveyors (RICS) SKA Silver rating in terms of the design’s broader sustainable design.
- **Lifts:** The first phase of a replacement passenger lift system at our offices at 250 Bishopsgate, London, leading to a 30% reduction in the energy use of the lifts; making the lifts ‘A’ rated in terms of energy.
- **Building Management System investment:** In our Coutts head office we have invested in ‘out BMS controllers’ which have provided a better environment for our colleagues and enable more efficient energy management from the facilities management team. We have also installed dashboard screens in the customer and colleague areas in both the Coutts head office and 250 Bishopsgate to educate on the energy usage of the buildings.

### Waste:

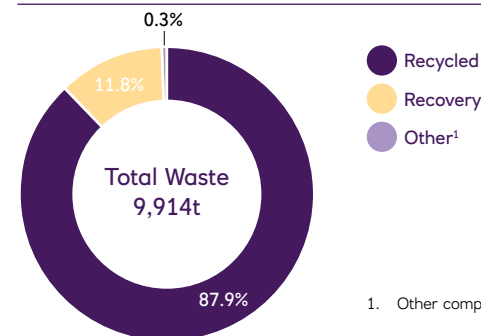
**Reduce:** Our waste per FTE reduced by 11% to 3.7 kg/week, which was partially due to reduced building occupancy following COVID-19 lockdown restrictions. Plans to recommence removal of single use plastics from all properties is intended to begin as soon as COVID-19 health and safety guidelines allow. Further, we are involved in cross industry working groups to improve the environmental performance of the UK’s cash cycle noting that we reduced our plastic in Cash Operations by 17% in 2021, which equates to 10.63 tonnes.

**Reuse:** We work with our supplier Go Green Managed Services to refurbish and refresh our existing furniture for reuse both within our building portfolio, and to supply furniture to our colleagues working from home. Surplus furniture is either donated to a network of our chosen charities or sold on to other businesses and the money raised is used for charitable causes. In both branch and office design, we are aligning with best practice sustainable standards for furniture, finishings and fittings, and where possible we repurpose and reuse furniture. In branches, when we do purchase furniture, it must be made of 90% recyclable materials, supported through our relationship with suppliers. During 2021, we have delivered quality-assured fitouts using the RICS SKA ratings, a set of sustainability good practice criteria, in both new and existing office and branch locations. We achieved SKA Gold accreditation for 250 Bishopsgate and 400 The Strand and Belfast DSE head office gained SKA Silver accreditation for fit-out works.

**Recycle:** Our 2025 ambition is to not only send zero waste to landfill in the UK and RoI but also to increase our resource efficiency and the circular economy to ensure resources are valued and nothing is wasted. During 2021, we achieved a 99.9% diversion from landfill rate, diverting all waste where feasible and where there are permitted alternative solutions, with 88% reused and recycled.

**Paper reduction:** In 2021 we reduced paper consumption by 65% from a 2015 baseline. By offering instant access digital alternatives across all customer accounts to documents such as bank statements, as well as our ePrompt campaign enabling customers to switch to email notifications, we should reduce colleague and customer dependence on paper communications and the associated waste. Paperless preferences have now been incorporated into our Retail Banking branch Financial Health Check process.

### Waste by Destination



1. Other comprises Reused of 0.2% and Landfilled of 0.1%.





## NatWest Group own operational footprint continued

### Climate Group initiatives

#### a) RE100 – Only renewable electricity in our direct global operations by 2025.

In 2021 we achieved our interim ambition of 90% renewable electricity coverage, consuming 97% renewable electricity across our global operations.

This was achieved through a combination of purchasing 100% of our UK and RoI electricity from renewable sources using green tariffs, and purchasing Renewable Energy Certificates (RECs) for our landlord-supplied properties in India, Europe and the UK, where we are currently unable to specify a requirement for renewable electricity.

Going forward, and in order to reach our ambition of 100% global renewable electricity by 2025, we intend to work with our principal landlords to advocate for renewable electricity provision for all properties.

#### b) EP100 – Improve energy productivity 40% by 2025 against a 2015 baseline.

We have increased energy productivity (FTE per GWh) by 36% since 2015 and are therefore on track to achieve our EP100 ambition. Our aim is to maintain the improvements following a safe return to office.

This is supported by a decrease in energy consumption. Across our global portfolio, electricity consumption decreased by 11% and natural gas consumption increased by

### CLIMATE GROUP

12% when compared to 2020. Our natural gas has increased as COVID-19 safety measures in place in our portfolio require 24/7 fresh air flow, therefore requiring further heating during cooler periods.

#### c) EV100 – Install electric vehicle charging infrastructure and upgrade our electric vehicle fleet.

The first part of our commitment is the installation of electric vehicle charging infrastructure in 15% of spaces across our UK portfolio by 2030, all of which will be using renewable electricity. We have expanded our commitment beyond our large offices to ensure benefits can be felt by more colleagues, as well as increasing our charger network coverage to further enable the electrification of our fleet. During 2021, project work was carried out to install charge point connections across our locations, bringing the total number of managed service connections to 289 by 31 December 2021.

The second part of our commitment is to upgrade our leased car fleet of around 300 combustion engine cars to fully electric models by 2025. Four electric vehicles have been ordered as part of a pilot that includes the installation of home charging equipment. Learning from the pilot process, the scheme will open to all fleet car drivers upon lease expiry.

### Other own operations initiatives

**Carbon credit development:** During 2021, we conducted a review of medium and long-term requirements for removal carbon credits. We're working with organisations who demonstrate excellent capability in producing high integrity carbon credits, offering a long-term source of income for local communities, while rescuing and restoring nature. There has been no impact on our use of carbon credits for 2021.

**Carbon pricing:** We are looking at options to calculate an internal price on carbon and plan on trialling an approach for our operations in 2022.

**Mobile banks:** Our fleet of diesel mobile banks operates on 41 routes providing an important face-to-face service for our customers in over 600 communities across the UK. Working with industry experts we are exploring the feasibility and approach needed to deliver the electrification of a pilot fleet of mobile banks in 2022. Further, seven of our mobile banks are now fitted with solar panels, generating up to 53% of the power required to operate the equipment on board.

**Sustainable Branch Hubs:** In 2021, Retail Banking fitted out two Sustainable Branch Hubs, one in Bristol and one in Cambridge. These increased the EPC rating of these branches to B and C respectively.

**Physical flood risk:** We have undertaken extensive research into the physical climate-related risks to our estate. We use this information to inform our portfolio strategy to mitigate future risks of our own operations being disrupted or damaged from the impacts of future climate change. Based on findings, 8.9% of our portfolio as at 31 December 2021 is in an area of high or very high flood risk; this does not include sites where we do not know the flood risk.

**Suppliers:** We are working with a third party to assess our supply chain partners to understand our wider impact and to identify where improvements can be made and risks mitigated. Of those suppliers who have been assessed, the average supply chain score is 54.0% against a benchmark of 43.9%. We plan to use the quantification of our upstream Scope 3 emissions to undertake hotspot analysis to identify and target our high impact suppliers by spend.



## Estimates of financed emissions

### Context of Paris alignment at NatWest Group

In February 2020, we set ourselves the challenge to at least halve the climate impact of our financing activity by 2030 and align with the 2015 Paris Agreement. Financing activity refers to the loans and investments (debt securities and equity shares) on NatWest Group's balance sheet. We use financed emissions as a key metric to estimate the climate impact of our financing activity and set a baseline for our climate ambition to align with the 2015 Paris Agreement. Financed emissions are GHG emissions that NatWest Group finances through its lending and investment activity. These activities fall within Scope 3, category 15 of the GHG protocol and are often the most significant part of a financial institution's climate impact. Financed emissions, measured as million tonnes of carbon dioxide equivalent per year, reflects the impact of a financial institution's lending and investment on economic activity e.g. production of goods and services, and related emissions.

In addition to financed emissions, we use emissions intensities to measure and manage climate transition risks, set targets or create new products and services to maximise climate opportunities, while supporting customers to transition. Physical emissions intensities are emissions per physical unit e.g. tonne or kilometre. As emission intensity is a sector specific measure, it helps banks steer different parts of their business and the customers in those sectors towards decarbonisation.

Our work on calculating financed emissions and emission intensity estimates enables us to:

- i. identify, assess and manage climate-related risks and opportunities,
- ii. understand the drivers of climate-related transition risks and opportunities in our business,
- iii. set a baseline for climate action to align with the 2015 Paris Agreement.
- iv. act to reduce our climate impact and support customer transition.

In 2020, we estimated financed emissions and emissions intensities for three emissions intensive Wholesale sectors (agriculture primary farming, automotive manufacturing and oil and gas extraction) as well as residential mortgages. During 2021, we worked on enhancing our capabilities across additional Wholesale sectors which are analysed in this section. In addition, we extended the scope of emissions calculation for the oil and gas sector beyond extraction activities covered in 2020. We have now analysed 52% (December 2020: 45%) of our loans and investment portfolio based on the 2019 balance sheet. Our work was guided by the availability of methodologies for estimating emissions intensities. As signatories of the Science Based Targets initiative (SBTi), we have sought to use their guidance for financial institutions to estimate emissions intensity estimates for 2030, where possible.

The different characteristics of these sectors enabled us to build a better understanding of opportunities and challenges, for aligning to the 2015 Paris Agreement, specific to these sectors. We focused on aligning our approach with existing and recognised methodologies, where possible. A common theme across the selected sectors related to data limitations, including lack of published emissions data, granularity of customer information, etc and building our climate data capability to address these.

As a result, the estimates included in this section are premised on use of assumptions, extrapolations or aggregation at sub-sector levels. We will engage with customers and stakeholders, and participate in wider initiatives, to help enhance the availability of decision useful granular climate-related data for customers. Based on these limitations, we expect our estimates of emissions to change as we improve our granular customer data and develop our methodologies further. Our work to date has reinforced our understanding of the challenges involved in emissions calculation as well as the urgency and the scale of transition required to align our financing activities to the 2015 Paris Agreement and achieve net zero.

Addressing the climate crisis is not something NatWest Group or any individual organisation can do on its own. As detailed in the sector pages in this section, there is a dependency on government and clear, early regulatory policy and technology developments, as well as on our customers and society to respond. At the same time, as a purpose-led organisation, we aim to engage and support our customers' transition to a net-zero economy. In addition to 2019 baseline and 2020 financed emissions and emissions intensity estimates, we have also prepared estimates of emissions intensities required by 2030 to support transition, as guided by the SBTi methodology where practicable. The outputs of this early analysis suggests that significant emission reductions will be required and that meeting 2030 estimates will be very challenging. Emission intensities achieved in 2030 will also be affected by external factors including government and regulatory policy, voluntary codes of practice, customer behaviour changes, market forces and developments in climate science and technology. We use external scenarios which outline policies, technology developments and other changes required to estimate 2030 emission intensities. These are included in the sector pages in this section. We have submitted 2030 emission intensity estimates for validation to SBTi so these may be subject to change.

We are continuing to work with business and sector teams to identify on-going work to support customer transition and set further actions required to support the transition to a net-zero economy. We will continue to build these actions during 2022 as we learn more from further analysis, outline climate transition plans and embed these actions into decision-making across the organisation. This requires the building of climate data capability, new tools which integrate with financial planning, and also colleague and customer education. Over time, we expect climate data granularity to improve as we move towards utilising actual customer climate data.

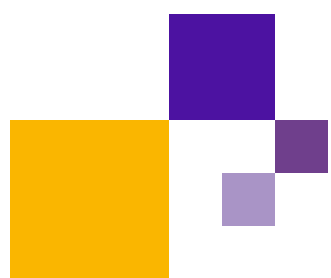
5.7

# Estimates of financed emissions continued

## Methodologies, standards and standard setters

The table below summarises the various collaborations and guidance NatWest Group has used to develop methodologies for estimating financed emissions and emission intensities:

Organisation	Description	Use in NatWest Group methodology
Partnership for Carbon Accounting Financials (PCAF)	PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with their loans and investments.	Where available, NatWest Group uses methodologies in the PCAF standard to measure financed emissions. In addition, we have used PCAF data quality and disclosure principles to guide our work.
Science Based Targets initiative (SBTi)	SBTi drives ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets. In November 2020, SBTi published guidance for financial institutions to set science-based targets, to align their lending and investment activities with the 2015 Paris Agreement.	NatWest Group joined SBTi following the launch of financial sector science-based targets guidance in 2020. We have used their Sectoral Decarbonisation Approach (SDA), where available, to assess initial emissions intensity estimates for 2030, for certain sectors. We have also followed SBTi and PCAF guidance where possible to choose the most appropriate emissions intensity metrics.
Committee on Climate Change or (CCC)	The CCC is the UK's independent adviser on tackling climate change. CCC advises the UK and devolved governments on emissions targets and reports to Parliament on progress made in reducing GHG emissions and preparing for, and adapting to, the impacts of climate change.	The CCC published the 'Sixth Carbon Budget, the UK's path to net zero' in December 2020. As a largely UK-focused bank, we selected the CCC's 'Balanced net zero' pathway to determine emission reductions required by 2030, where possible.
The International Energy Agency (IEA)	The International Energy Agency works with countries around the world to shape energy policies for a secure and sustainable future. IEA provides data, analysis and policy recommendations on all matters relating to fuels and energy generation. This includes developing forecasts and scenarios for the energy industry that are consistent with various climate-based objectives.	We have used the IEA Beyond 2°C World Scenario (B2DS World) from the Energy Technology Perspectives (ETP) report for assessing estimates for emissions reduction by 2030 for sectors where the B2DS World scenario was more ambitious than the CCC's BNZ scenario.  For assessing reductions in Scope 3 emissions for oil and gas sector, we have used IEA Net Zero Emissions (NZE) scenario, published in 2021.





## Estimates of financed emissions continued

### Methodologies, standards and standard setters

The table below provides an overview of the standards, methodologies and scenarios used as inputs for assessing financed emissions as well as physical emission intensities. Also included are the metrics used for measuring physical emissions intensity estimates for each sector.

Sector	Financed emissions standard	Scenario	Approach used to estimate physical emissions intensity in 2030	Physical emissions intensity metrics used to estimate reduction required by 2030
Residential mortgages	PCAF	IEA ETP B2DS (World)	SDA	kgCO <sub>2</sub> /m <sup>2(1)</sup>
Commercial Real Estate	PCAF	UK CCC BNZ	SDA	kgCO <sub>2</sub> /m <sup>2(1)</sup>
Automotive manufacturing	PCAF	IEA ETP B2DS (World)	SDA	gCO <sub>2</sub> e/vkm <sup>(2)</sup>
Agriculture primary farming and Land Use, Land Use Change and Forestry (LULUCF)	PCAF	UK CCC BNZ	SDA	tCO <sub>2</sub> e/£million <sup>(3)</sup>
Land transport – Passenger Road	PCAF	IEA ETP B2DS (World)	SDA	gCO <sub>2</sub> /pkm <sup>(4)</sup>
Land transport – Passenger Rail	PCAF	IEA ETP B2DS (World)	SDA	gCO <sub>2</sub> /pkm <sup>(4)</sup>
Land transport – Freight Road	PCAF	IEA ETP B2DS (World)	SDA	gCO <sub>2</sub> /tkm <sup>(5)</sup>
Electricity generation	PCAF	UK CCC BNZ	SDA	kgCO <sub>2</sub> /MWh <sup>(6)</sup>
Aviation	PCAF	IEA ETP B2DS (World)	ACA <sup>(7)</sup>	N/A <sup>(7)</sup>
Oil and gas – (Scope 1 and 2 emissions)	PCAF	UK CCC BNZ	SDA	tCO <sub>2</sub> e/TJ <sup>(8)</sup>
Oil and gas – (Scope 3 emissions)	PCAF	IEA NZE	ACA <sup>(9)</sup>	N/A <sup>(9)</sup>
Shipping	PCAF	IEA ETP B2DS (World)	ACA <sup>(7)</sup>	N/A <sup>(7)</sup>
Iron and steel	PCAF	IEA ETP B2DS (World)	SDA	tCO <sub>2</sub> e/tonne <sup>(10)</sup> Iron and steel
Aluminium	PCAF	IEA ETP B2DS (World)	SDA	tCO <sub>2</sub> e/tonne <sup>(10)</sup> Aluminium
Cement	PCAF	IEA ETP B2DS (World)	SDA	tCO <sub>2</sub> e/tonne <sup>(10)</sup> Cement

- kgCO<sub>2</sub>/m<sup>2</sup> is kilograms of carbon dioxide equivalent per square metre of financed floor space;
- gCO<sub>2</sub>e/vkm is grams of carbon dioxide equivalent per kilometre travelled over the lifetime of a vehicle financed by NatWest Group;
- tCO<sub>2</sub>e/£million is tonnes of carbon dioxide equivalent emitted per million of revenue.
- gCO<sub>2</sub>/pkm is grams of carbon dioxide equivalent per kilometre travelled by one passenger, based on the travel activity financed by NatWest Group;
- gCO<sub>2</sub>/tkm is grams of carbon dioxide equivalent per kilometre which one tonne of freight financed by NatWest Group travels;

- kgCO<sub>2</sub>/MWh is kilograms of carbon dioxide equivalent for the operation of a 1 megawatt power plant for one hour, as financed by NatWest Group.
- SBTi guidance for Aviation and Shipping permits the use of Absolute Contraction Approach (ACA) for estimating reduction in emissions in absolute terms as a percentage reduction between 2019 and 2030 instead of reduction per physical unit of activity.
- tCO<sub>2</sub>e/TJ is tonnes of carbon dioxide equivalent per Terajoule of energy extracted as a result of financing by NatWest Group;
- Oil and gas Scope 3 emissions arise from combustion of fuel. As a result, estimates for reduction are based on absolute emissions, aligned with the IEA NZE scenario.
- tCO<sub>2</sub>e/tonne is tonnes of carbon dioxide equivalent per tonne manufactured





## 5.7

## Estimates of financed emissions continued

### Scenario selection

In addition to estimation of baseline and current emissions, we estimate emissions reductions required in future years, particularly 2030, to develop plans and strategies to support customer transition and to align our financing activity with the ambition to halve the climate impact by then. We use scenarios that are recognised in the industry and developed by independent and respected organisations. In selecting sectoral scenarios and pathways we have followed the SBTi requirement of selecting a scenario at least as ambitious as that in the SBTi Sectoral Decarbonisation Approach (SDA) tool which achieves a temperature of approximately 1.8°C by 2050. We also tried to use as few scenarios as possible to keep the overall picture as consistent as possible. However, we had to compromise to keep our sectoral pathways ambitious and cover various sectors. For each sector, we compared the IEA's B2DS World against the CCC's BNZ scenarios and selected the most ambitious pathway. We used IEA NZE for oil and gas (Scope 3 emission) as it is the only scenario to contain this pathway. However, we did not use it for other sectoral pathways as it is less ambitious for most of the sectors.

The main assumptions of the scenarios used for each sector and their potential impacts on emissions are noted in the sector pages in this section. As a primarily UK-focused bank, we also describe current UK Government policies and commitments for each sector to compare current state with various scenario assumptions. The CCC and IEA scenarios have similar assumptions on technology deployment and policy support, so this approach enables NatWest Group to consider the impact of its financing and further support we can provide to customers to support their transition to net zero.

For estimating emission reductions required by 2030, we used different scenarios than for our internal scenario analysis to support the CBES stress test set out by the Bank of England, which is based on the NGFS scenarios. Although NGFS produced scenarios, which satisfy the 'well below 2°C' requirement of the Paris Agreement (e.g., Early Action scenario), they do not contain enough sectoral detail to set sectoral decarbonisation targets and support our work on financed emissions. However, since they have a similar end of century temperature target, our sectoral pathways could be considered broadly consistent with the Early Action CBES scenario.





## 5.7

## Estimates of financed emissions continued

## Linkage to NatWest Group balance sheet

The table below shows the on-balance sheet gross lending and investment exposure, amortised costs and FVOCI, to sectors included in the analysis at 31 December 2020 and 2019 and the amounts analysed for estimating financed emissions. As per the PCAF standard, we have excluded short term lending including invoice financing. Other sector specific exclusions are noted within comments for each sector. In addition to the sectors noted below, we also analysed iron and steel, aluminium and cement sectors, each with lending and investment exposure of less than £0.1 billion.

Sector	2020			2019			Comments
	On balance sheet loans and investments (£bn)	Loans and investments analysed (£bn)	% analysed	On balance sheet loans and investments (£bn)	Loans and investments analysed (£bn)	% analysed	
Residential mortgages	190.5	190.5	100	174.0	174.0	100	
Commercial real estate	23.5	18.2	77	23.2	17.7	76	As prescribed by the SBTi, only lending secured by collateral is included for estimation of financed emissions. Unsecured lending and lending related to construction activities is excluded.
Automotive	6.3	0.3	5	6.2	0.3	5	We have focused analysis on Automotive manufacturing activities within the sector as these balances relate to large companies who are in a better position to change emissions profile of vehicles than equipment manufacturers or car rental or sales companies.
Agriculture	5.3	4.3	79	4.9	4.0	80	We have analysed primary farming and fishing activities to estimate emissions. In addition, we have separately estimated emissions for LULUCF as these activities support removal of CO <sub>2</sub> .
Land transport and logistics	4.8	4.3	90	3.8	3.8	100	We have analysed Land transport sub sectors separately due to differences in technology. Exclusions for 2020 include exposure services linked to land transport e.g. cargo handling, storage facilities, etc.
of which Freight road	1.7	1.6	94	1.1	1.1	100	
of which Passenger rail	0.5	0.5	100	0.5	0.5	100	
of which Passenger road	2.2	2.2	100	2.2	2.2	100	
Power utilities	3.5	3.1	89	3.3	2.8	85	Loans and investments analysed relate customers engaged in electricity generation activities, as prescribed by the SBTi.
Airlines and aerospace	2.0	0.9	45	1.7	0.9	53	We have analysed exposures related to operation and leasing of Aviation transport equipment, with manufacturing and services activities being excluded.
Oil and gas	1.6	1.6	100	2.1	2.1	100	We have increased the scope of our analysis to include all activities within the sector.
Shipping	1.0	1.0	100	1.2	1.2	100	
Total	238.5	224.2	94	220.4	206.8	94	
Total NatWest Group	428.4			399.0			
Percentage covered			52.3			51.8 <sup>(1)</sup>	

1. During 2020, our analysis covered three Wholesale sectors: Agriculture primary farming, Automotive manufacturing, Oil and gas extraction as well as residential mortgages covering 44.8% of the loans and investments at December 2019. The table above includes additional sectors analysed for 2019.



5.7

# Estimates of financed emissions continued

## Estimation of financed emissions

Financed emissions refer to the total GHG emissions of an asset class or sector that is attributable to NatWest Group’s loans and investments as at 31 December in the relevant year. In line with the PCAF Standard, we have estimated absolute emissions based on Scope 1 and 2 emissions attributable to loans and investments for the sectors or sub-sectors analysed. In addition, for our oil and gas extraction, land transport and automotive manufacturing sectors, we have included Scope 3 emissions based on downstream use of products sold as they constitute a large proportion of the overall estimated emissions in these sectors. In general, we have sought to estimate emissions based on the following formula prescribed by the PCAF Standard:

$$\text{Financed emissions} = \frac{\sum_i \text{Attribution factor}_i \times \text{Emissions (with } i = \text{borrower or investee)}}{\frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i}}$$

**Attribution factor:** The PCAF Standard requires a financial institution’s share of emissions to be proportional to the borrower’s or investee’s total (company or project) value. According to the GHG Protocol, absolute GHG emissions from loans and investments are allocated or attributed to the reporting financial institutions based on the proportional share of loans and investments in the borrower or investee. The attribution factor is calculated by determining the share of the outstanding amount of loans and investments of a financial institution over the total equity and debt of the borrower or investee company. Consistent with the PCAF Standard, we have sought to use the original property valuation for calculating the Loan to Value (LTV) ratio for residential mortgages as part of the attribution formula for residential mortgages and the most recent property valuation for calculating the LTV for commercial real estate.

## Data quality score

Current data limitations related to lack of granular and sub-sector customer data availability as well as published counterparty data results in the use of judgements and assumptions in the calculation of financed emissions and emissions intensities. The quality of this data can vary depending on assumptions relating to its assuredness, specificity, level of verifiability or verification and other variables. The PCAF Standard recommends applying a data quality scoring methodology to help assess data quality challenges and recognise areas for improvement. PCAF’s ratings generally assign directly collected customer emissions data a better score while estimated or extrapolated data achieves lower scoring. A PCAF score of 1 is typically considered to have a very low margin of error for estimation of financed emissions, whilst a PCAF score of 5 is typically considered to have a much larger margin of error.

In practice, data limitations mean that sectors are generally footprinted using a mixture of customer specific and estimated data at a sub sector level. The PCAF Standard therefore suggests assigning a ‘weighted’ score to reported sectors based on the relative exposure associated with different methodologies. For example, if 50% of a sector’s exposure has directly collected data with a score of 2, and the remainder using estimated data that achieves a score of 4, its weighted PCAF score would be  $2 \times (50\%) + 4 \times (50\%) = 3$ .

## NatWest Group approach to estimating financed emissions

To estimate financed emissions by sector, we looked at emissions on a counterparty basis. For the residential mortgages and commercial real estate sectors, we used EPC ratings to estimate emissions. For other sectors, the following approach was applied:

- a. Where available, we used customers’ published financed emissions to estimate NatWest Group financed emissions – these were sourced from third parties who have processes in place to gather and validate this data. These third-party providers collate environmental data on a large range of companies. The accuracy of their data is achieved through regular engagement with all companies in their data universe.
- b. Where published financed emissions were not available, we used other externally published financial and non-financial data to estimate emissions e.g. use of production capacity data or counterparty revenue to estimate production levels and related emissions or emissions based on a sectoral-average revenue intensity factor.
- c. For counterparties for which externally published emissions or other data were not available, we estimated emissions based on the emissions for other counterparties in the sector, assuming that the emissions profile for counterparties for which published data isn’t available, is comparable to the rest of the counterparties within the same sector.



## 5.7

## Estimates of financed emissions continued

The table shows percentage of exposures in each sector for which (a) externally published emissions have been used; (b) externally published production or revenue estimates have been used or (c) extrapolation has been applied to estimate emissions and related data quality scores. Data quality scores vary across sectors based on source of data as well as level of estimation required. We have followed a conservative approach in assigning data quality scores. For published emissions, we generally allocate a score of 1 or 2. EPC data for mortgages and CRE was allocated a score of 3, aligned with the PCAF standard. For production / revenue data, scores range from 3 to 4 depending on availability of externally published data or use of revenue data to estimate production. Extrapolated emissions always receive a score of 5.

Sector	2020							2019
	Published emissions (%)	Data quality	Production/revenue (%)	Data quality	Extrapolated emissions (%)	Data quality	Overall data quality score	
Residential mortgages	42	3	0	0	58	5	4.2	4.1
Commercial real estate	13	3	74	5 <sup>(1)</sup>	13	5	4.7	5
Automotive manufacturing Scope 1 and 2	88	2	7	4	5	5	2.3	2.3
Automotive manufacturing Scope 3	0	0	88	3	12	5	3.2	3.3
Agriculture – Primary farming	0	0	56	4	44	5	4.4	4.4
Agriculture – LULUCF	0	0	8	4	92	5	4.9	4.9
Land transport	8	2	56	4	36	5	4.2	4.2
Electricity generation	78	3	8	4	14	5	3.4	3.4
Aviation	12	1	49	4	40	5	4.1	4.5
Oil and gas Scope 1 and 2	9	1	21	4	70	5	4.4	4.5
Oil and gas Scope 3	18	1	21	4	61	5	4.1	4.6
Shipping	30	1	53	4	17	5	3.3	3.3
Iron and steel	6	2	50	4	44	5	4.3	4
Aluminium	0	0	23	4	77	5	4.8	5
Cement	48	1	6	4	47	5	3.1	2.1

### Estimation of emission intensity

Emissions intensity may be measured as physical and economic emissions intensity metrics. Physical emissions intensities refer to financed emissions per unit of physical output in the real economy such as tonnes of steel or cement or MWh of electricity generation. For the footprint, the physical output unit was calculated based on counterparty production data (where available) or production proxies such as an average production-to-revenue factor for counterparties with similar operations in the sector. This metric assumes that counterparties in a given sector have similar cost/revenue structures and that the sector operates essentially as a free market, absent of monopoly rents.

Economic emissions intensities refer to financed emissions per pound of lending or investment. These are calculated as a metric to help NatWest Group assess the marginal impact of its lending to its Scope 3, category 15 GHG emissions. This metric assumes that the marginal impact of a pound lent or invested for that sector does not depend on existing financing in the sector. In other words, each additional or marginal pound of lending or investment to a counterparty in that sector, results in the same additional or marginal increase in activity and thus emissions in the real economy.

**Estimated convergence points:** To estimate emissions intensity reduction required by 2030 (convergence year), we have used externally published independent scenarios to estimate convergence points for 2020, 2030 and 2050 by sector based on a 2019 baseline. The convergence points are determined based on the rate of change required by the external scenario each year between 2019 and 2030. The graphs included in sector pages in this section include convergence points for 2020, 2030 and 2050, being the expected trajectory for alignment with the 2015 Paris Agreement. In general, we have used the CCC's BNZ scenario or the IEA's B2DS scenario for various sectors aligned with the SDA approach prescribed by the SBTi guidance. Aligned with the SBTi guidance, we have used those scenarios which require greatest percentage reduction in intensity for each sector.

1. Regional averages of floor space and emissions from EPCs were used to estimate emissions where EPCs aren't available for individual properties. On a conservative basis, we have allocated this a score of 5.





## 5.7

## Estimates of financed emissions continued

## Estimates of financed emissions and emission intensities:

The table below shows our estimates based on our work to date and should be read in conjunction with section 5.8 (Caution about climate metrics) and Risk Factors included in the 2021 Annual Report and Accounts. The table below shows NatWest Group's estimated (i) financed emissions, (ii) physical and economic emissions intensities, (iii) physical emissions intensity estimates for year 2030 aligned to NatWest Group's climate ambition to halve the climate impact of financing activity, intended to be aligned with SBTi guidance. We will continue to work on this in 2022 and further refine our estimates as we enhance our understanding, calculation methodologies and data. We have used a combination of methodologies (some of which are still under development) to calculate these emissions. Refer to sector pages in this section for further details on methodologies and approaches used.

Sector	2020				2019				2030
	Scope 1 and 2 (MtCO <sub>2</sub> e)	Scope 3 (MtCO <sub>2</sub> e)	Physical emissions intensity	Economic emissions intensity	Scope 1 and 2 (MtCO <sub>2</sub> e)	Scope 3 (MtCO <sub>2</sub> e)	Physical emissions intensity	Economic emissions intensity	Physical emissions Intensity
Residential mortgages <sup>(1)</sup>	3.2		37.4 kgCO <sub>2</sub> e/m <sup>2</sup>	17	3		38.7 kgCO <sub>2</sub> e/m <sup>2</sup>	17	19.6 kgCO <sub>2</sub> e/m <sup>2</sup>
Commercial real estate	0.4		56.5 kgCO <sub>2</sub> e/m <sup>2</sup>	21	0.4		56.0 kgCO <sub>2</sub> e/m <sup>2</sup>	21	22.5 kgCO <sub>2</sub> e/m <sup>2</sup>
Automotive manufacturing <sup>(2,3,4)</sup>		0.5	248 gCO <sub>2</sub> e/vkm	1,488		0.3	260 gCO <sub>2</sub> e/vkm	1,362	197 gCO <sub>2</sub> e/vkm
Agriculture – primary farming <sup>(2)</sup>	4.5		2,147 tCO <sub>2</sub> e/£m	1,060	4.1		2,075 tCO <sub>2</sub> e/£m	1,033	1,527 tCO <sub>2</sub> e/£m
Agriculture – LULUCF <sup>(3)</sup>			(424) tCO <sub>2</sub> e/£m	(635)			(333) tCO <sub>2</sub> e/£m	(729)	(1,493) tCO <sub>2</sub> e/£m
Land transport <sup>(4,5)</sup>	0.8	0.8		357	0.6	0.7		348	
of which freight road	0.2	0.3	37.3 gCO <sub>2</sub> e/t-km	324	0.1	0.2	36.7 gCO <sub>2</sub> e/t-km	317	29.8 gCO <sub>2</sub> e/t-km
of which passenger rail	0.3	0.2	50.6 gCO <sub>2</sub> e/p-km	924	0.3	0.2	50.6 gCO <sub>2</sub> e/p-km	976	29.5 gCO <sub>2</sub> e/p-km
of which passenger road	0.3	0.3	73.2 gCO <sub>2</sub> e/p-km	234	0.2	0.3	64.9 gCO <sub>2</sub> e/p-km	221	44.6 gCO <sub>2</sub> e/p-km
Electricity generation	1.7		258.5 kgCO <sub>2</sub> e/MWh	546	2.4		223.2 kgCO <sub>2</sub> e/MWh	884	53.1 kgCO <sub>2</sub> e/MWh
Aviation <sup>(6)</sup>	1.6			1,748	1.8			2,122	
Oil and gas <sup>(7)</sup>	0.9	1.5	2.5 tCO <sub>2</sub> e/TJ	531	1.7	1.9	2.6 tCO <sub>2</sub> e/TJ	736	1.6 tCO <sub>2</sub> e/TJ
Shipping <sup>(6)</sup>	0.3			311	0.4			319	
Iron and steel	0.4		1.5 tCO <sub>2</sub> e/tonne	5,690	0.3		1.6 tCO <sub>2</sub> e/tonne	4,820	0.8 tCO <sub>2</sub> e/tonne
Aluminium <sup>(3)</sup>			2.2 tCO <sub>2</sub> e/tonne	1,107			2.5 tCO <sub>2</sub> e/tonne	1,155	1.8 tCO <sub>2</sub> e/tonne
Cement	0.4		0.5 tCO <sub>2</sub> e/tonne	2,670	0.5		0.6 tCO <sub>2</sub> e/tonne	2,586	0.2 tCO <sub>2</sub> e/tonne

- 2019 Scope 1 and 2 emissions have been revised due to improvement in underlying data primarily impacting the calculation of original loan to value used to attribute emissions to NatWest Group.
- 2019 estimates have been revised due to enhancements in availability of available customer financial data.
- 2019 and 2020 Scope 1 and 2 emissions are below 0.1MtCO<sub>2</sub>e.
- Scope 3 emissions are included in the estimation of physical emissions intensity.
- Physical emission intensities have been calculated at sub-sector level.
- Physical emission intensities have not been calculated as Absolute Contraction Approach is used for estimating reduction required by 2030.
- 2019 estimates have been revised due to extension in scope of analysis to include all activities in the sector; previously only oil and gas extraction activities were in scope.



## Estimates of financed emissions continued

### Overview of data limitations

As noted above, there are various data limitation challenges associated with the estimation of financed emissions due to the lack of available, granular, reliable and verifiable customer and counterparty data. In addition, other limitations with the calculation of financed emissions include:

- **Lag effect of availability of counterparty data:** While we have calculated emissions for on balance sheet lending and investment at December 2020 and 2019, published counterparty data may not always correlate to these dates. We source counterparty data from external third parties who specialise in collating data from published reports. While we look at data corresponding to NatWest Group balance sheet dates for which emissions are being calculated, underlying counterparty data may relate to different dates. This may result in a lag in reflecting any changes in customer circumstances within NatWest Group financed emissions.
- **Decarbonisation of the power grid:** Scope 2 emissions relate to emissions from purchased sources including electricity. Given the UK Government’s legislated net zero 2050 target per the Climate Change Act amendment published in June 2019 and the recent announcement in the Energy White Paper updated in December 2021 of full decarbonisation of the power grid by 2035, and accelerated rollout of offshore wind deployment, the UK is experiencing rapid decarbonisation of the power grid including a decline of coal’s share as fuel for the UK power grid to almost zero in 2021. There may be a lag in decarbonisation of the power grid and the reporting by customers of the resulting reduction in Scope 2 emissions. To minimise the extent of overstatement of Scope 2 emissions, we have adjusted for the estimated impact of decarbonisation of the power grid between the year of EPC assessment and year of calculation of emissions for residential mortgages and commercial real estate. For other sectors, Scope 2 emissions may be overstated to the extent of benefit from power grid decarbonisation since the previous reporting date of the customer.
- **Calculation of emissions based on on-balance sheet exposures:** Consistent with the PCAF standard, we calculate emissions on on-balance sheet lending and investment only. As a result, commitments made to customers that haven’t been drawn by the customers at the date of calculation are excluded. This may result in a variation in financed emissions from year-to-year as a result of customer drawdowns and repayments.
- **Susceptibility to variation year-on-year:** As noted previously, we use customer emissions, production and revenue data to estimate financed emissions. Customer revenue and production are susceptible to change for various reasons including consolidation in the sector, changing supply/demand market conditions, new entrants, changes in the policy or funding environment resulting in variation in NatWest Group financed emissions year-on-year. As customers’ disclosures develop to include their emissions, the reliance on other metrics will reduce. In the meantime, variation in our financed emissions may not always reflect changes in customers’ emissions but could result from changes in other factors used to estimate emissions in the absence of externally published emissions by customers.
- **Emissions intensities reflect averages for the sector:** emission intensity estimates are not comparable across different financial institutions as they are based on data related to NatWest Group customers and may be higher or lower than the average across other financial institutions.
- **Double counting of Scope 3:** Scope 3 emissions represent emissions across the value chain for a given sector including upstream emissions, such as in processing the rare earth metals which go into the electronics in a wind turbine and downstream emissions such as emissions from losses in the power grid during operation of the wind turbine. As per the PCAF Standard, disclosure of Scope 3 emissions is currently limited to just the oil and gas, automotive and transport sectors. However, it is a known issue of the methodology that ‘double counting’, whereby the Scope 1 or 2 emissions for a given sector may correspond to Scope 3 for a sector which uses the outputs of the first sector as an input, cannot be entirely avoided since the allocation of emissions in the potential overlap is difficult to estimate. As a result, our estimates of Scope 3 emissions for these sectors are likely to have some double counting and be on the conservative side.

We will continue to work with customers to encourage them to publish emissions disclosures. In ‘A roadmap to mandatory climate-related disclosures’ (November 2020), Her Majesty’s Treasury (HMT) set out regulators’ intentions to require mandatory TCFD climate-related disclosures across the UK economy by 2025. This will help enhance the quality of emissions data available for use by NatWest Group to calculate our financed emissions.

The pages that follow provide detailed analysis for sectors with lending and investment in excess of £0.1 billion, including approaches used to estimate financed emissions, emission intensities as well as estimated convergence points. Also included are assumptions related to the scenarios used and on-going policy horizon to support some of these assumptions. Refer to sections 3.4 and 3.5 for on-going work to support customer transition in various sectors.



5.7

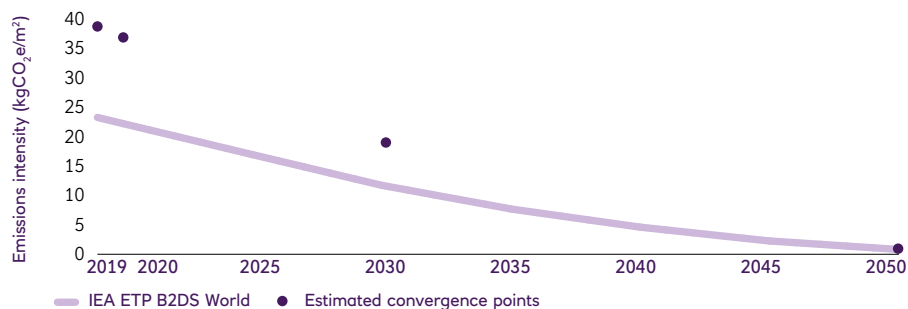
# Estimates of financed emissions continued

## Residential mortgages

Residential mortgages comprise 44% of the NatWest Group loans and investments at 31 December 2020 (31 December 2019: 44%). To estimate financed emissions, we used EPC data as an estimate of the underlying climate impact. EPC data is sourced from publicly available customer information for England and Wales for the year of inspection by qualified EPC surveyor. As EPC ratings only need to be updated every 10 years or after significant retrofits, at the point of sale or if leased, not all properties have current EPC ratings. Refer to section 5.2 for limitations related to EPC data.

For the purpose of calculating financed emissions estimates, EPC data has not been adjusted for any assumed energy efficiency changes since the date of collection. For Scope 2 financed emissions estimates, EPC data collected prior to 2020 and 2019 has been adjusted only for the decarbonisation of the UK power grid between the year of inspection and date of calculation of NatWest Group financed emissions. In line with the PCAF standard, we have used original Loan to Value (LTV) to calculate financed emissions. Original LTVs have been calculated based on outstanding loan balance as of calculation date divided by original property values at the time of mortgage origination. As noted in the PCAF UK 2020/21 Year 1 Report of the UK Partnership for Carbon Accounting Financials, in some cases, property valuation at origination is not available (for example, where a mortgage originated several decades ago), or is no longer appropriate, for example where further advances have been released for property improvements, or as a property is built. This has been recognised as a further area of work and enhancement in the current standard. NatWest Group is a member of the PCAF UK coalition and will continue to work with PCAF and other members of the coalition to enhance the standard.

### Emissions intensity estimates



We used the IEA B2DS World pathway to estimate convergence points which requires an emission intensity reduction of 49% by 2030, based on a 2019 baseline. The key assumptions underlying the IEA B2DS World scenario and related on-going policy and technology development assumptions are:

- **Fossil fuels heating replacement** over time has the potential to influence emissions reduction in the residential mortgage sector. IEA estimates that low-carbon heating equipment (heat pumps, solar, thermal, biomass, etc) will make up 45% of global heating equipment by 2030 and 79% by 2050. As a result, fossil fuel energy consumption in heating will decrease by 17% by 2030 and 51% by 2050 relative to the IEA's baseline scenario. With the Clean Growth Strategy, updated in April 2018, the UK Government intends to phase out the installation of high carbon fossil fuel heating in new and existing buildings in areas off the gas grid, during the 2020s. Addressing the acceleration of heat pump deployment, the Government launched the Heat and Buildings strategy, published in October 2021, to support growth of the market. While the Heat and Buildings strategy has been announced, hydrogen-ready boiler standards have not yet been consulted on or published. The CCC BNZ scenario assumes 5.5 million households have heat pumps by 2030.
- In addition, **energy efficiency and electrification of home appliances** has the potential to impact emissions in residential mortgages. The UK Government has enacted legislation incentivising low-carbon heat and committed to a net-zero target for buildings. The UK Government has also committed to invest £450 million to support deployment of low-carbon heat in existing buildings, offering grants of up to £5,000 per home to replace gas boilers with heat pumps.
- **Decarbonised electricity generation:** Scope 2 emissions for residential mortgage customers arise from purchased electricity, as a result decarbonisation of electricity generation may be a significant driver of potential emissions reduction in the sector if mandatory building codes and voluntary certification drive the push for energy efficiency. The CCC projects that emissions intensity of electricity will fall from 220 gCO<sub>2</sub>/kWh in 2019 to around 50 gCO<sub>2</sub>/kWh in 2030, 10 gCO<sub>2</sub>/kWh in 2035, and 2 gCO<sub>2</sub>/kWh in 2050. The UK Government's policies to support this fall include Green Gas Support Scheme (GGSS) (to support the injection of biomethane into the gas grid), the Future Homes Standard, published in October 2019, and the Net Zero Strategy from October 2021, in which the Government committed to consulting on the potential for phasing in higher minimum energy efficiency standards.
- **Residential floor space** is expected to grow aligned to increase in population: IEA assumes that global floorspace increases by 2% each year until 2040, then 1.5% through 2060.

We summarise on-going NatWest Group work with residential mortgage customers to increase awareness and options available to support them to improve home energy efficiency through making home improvements e.g. green mortgage products in sections 3.4 and 3.5.

We will continue to develop green financial products to reward and incentivise the purchase of the most energy efficient properties, measured by their EPC, but also to allow customers to fund home improvements that increase the energy efficiency of existing properties. We will also take a proactive stance to sector engagement, working with government, as well as across the finance sector, NGOs etc.



5.7

# Estimates of financed emissions continued

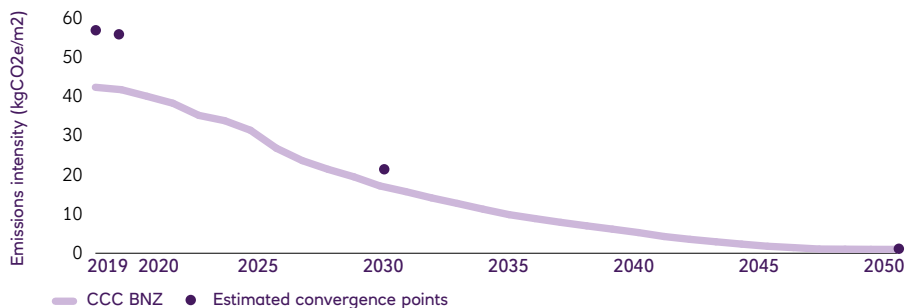
## Commercial real estate (CRE)

Amounts analysed of £18.2 billion at 31 December 2020 (31 December 2019 £17.7 billion) include lending for the purchase and refinancing of CRE, and on-balance sheet investments in CRE. Only secured lending with underlying collateral is considered in scope while lending related to construction activities is considered out of scope as prescribed by the SBTi guidance. Financed emissions reflect Scope 1 and 2 emissions related to the energy use of financed buildings during their operation (energy consumed by the building's occupant and shared facilities).

We use EPC data to estimate emissions for CRE lending, aligned with the methodology used for residential mortgages. Within the CRE sector, there are further complexities as in some cases multiple loans are secured against multiple properties and vice-versa. To support the calculation of emissions at a property level, in some cases, we had to apportion loan values to underlying properties to support estimation of emissions based on the property's EPC rating.

To determine the property value for CRE and calculate NatWest Group's attributed emissions, the latest available property values were used, and then a forward growth rate was applied in order to determine the most up-to-date property value. This is aligned with the PCAF Standard, which allows the use of most recent property values for the attribution of emissions.

### Emission intensity estimates



Based on the CCC BNZ scenario, we estimate that the emission intensity of our CRE loans and investment portfolio needs to reduce by 60% by 2030. Key assumptions underlying this scenario include:

- To estimate **average floor space** for the UK housing stock through to 2050, the average floor area per property is assumed to be the same across the UK.
- **Improvement in energy efficiency** of CRE has the potential to drive emissions reductions and the government has implemented policies for improving energy efficiency. The UK Government's Energy White Paper, published in December 2020, sets a minimum energy efficiency standard for 2030 for privately rented commercial buildings in England and Wales, and the Energy Savings Opportunity Scheme (ESOS) is a mandatory energy assessment scheme for large businesses' energy use. The Energy White Paper has already been consulted. The ESOS has been implemented and a consultation for strengthening the ESOS was performed in 2021.
- **Replacement of fossil fuels is a potential driver of emissions reductions in the CRE sector.** The UK Government's Heat and Building Strategy was announced in October 2021. However, as per the CCC, no timelines have been set for the Government's plans to consult on options to encourage energy efficiency for able-to-pay owner-occupiers, which could undermine the strategy.
- **Decarbonisation of the electricity generation** will support reductions in Scope 2 emissions, as noted in the Residential mortgages page.

NatWest Group has implemented various measures to support customers including an EPC toolkit to raise customer awareness on the energy efficiency of their portfolios to help assess EPC risk. For further details on on-going NatWest Group support for customer transition, please refer to section 3.4 and 3.5.





5.7

# Estimates of financed emissions continued

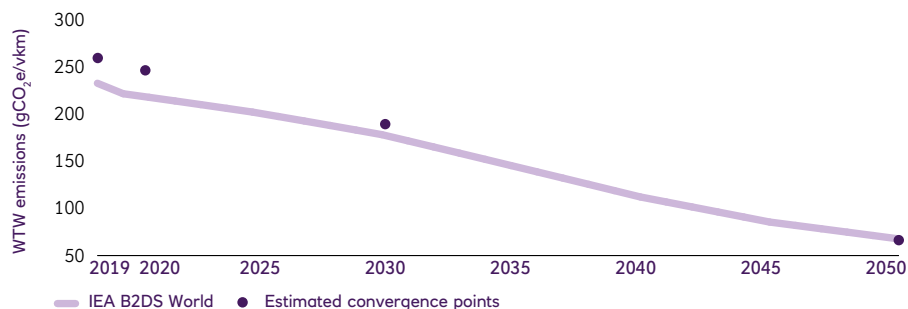
## Automotive manufacturing

### Financed emissions

Our analysis included manufacture of motor vehicles, motorcycles, caravans, trailers and semi-trailers with exposures amounting to £0.3 billion at 31 December 2020 (£0.3 billion at 31 December 2019).

Scope 1 and 2 emissions were either directly sourced from a counterparty’s published emissions data or estimated using revenue intensities, where possible. For Scope 3 emissions estimation, well-to-wheel emissions we calculate well-to-tank and tank-to-wheel emissions based on sales data for the top five counterparties and BEIS emission factors (88% coverage of portfolio). Scope 3 emissions for the remaining 12% counterparties were estimated based on their exposure relevant to other counterparties. Well-to-tank emissions result from the production, processing and delivery of a fuel before combustion in an automobile engine. Tank-to-wheel emissions relate to the combustion of fuel in an automobile’s engine, released directly at the tailpipe of the vehicle. Both well-to-tank and tank-to-wheel emissions are estimated for Scope 3 emissions as both sets of activities are required for the automobile to operate. As noted previously, calculation of Scope 3 emissions, particularly with oil and gas and the transportation and automotive sectors, introduces the potential for double counting of emissions.

### Emissions intensity estimates



We used the IEA ETP B2DS scenario to estimate physical emission intensity reduction required by 2030. Key assumptions of the scenario and on-going policy developments are noted below:

The electrification process of passenger travel has the potential to drive emissions reductions in the sector. The UK Government is proposing to invest £1.3 billion over four years to accelerate electric charge-point deployment and £582 million for plug-in vehicle grants.

Also announced in the UK Government’s ‘Ten Point Plan’, published in November 2020, the sale of new petrol and diesel cars and vans will end from 2030; and from 2035, all new cars and vans must be zero emission at the tailpipe. These measures will be complemented by the introduction of a zero-emission vehicle mandate setting targets for a rising percentage of manufacturers’ new car and van sales to be zero emission each year from 2024.

An assumed decrease in demand for passenger travel and long-term emissions reduction due to the use of alternative energy carriers have the potential to be a large driver of emissions reductions in the automotive manufacturing sector. The Department for Transport (DFT) published a Transport Decarbonisation Plan (TDP), released in July 2021, in which £12 billion is planned to be invested in local low-carbon transport systems. According to the CCC, while the TDP sets clear milestones and targets for delivering transition, it also recognises that more needs to be done to reduce reliance on private cars for transport.

In collaboration with stakeholders, the DFT will develop a longer-term strategy for the use of low-carbon fuels, which identifies additional policy measures that may be required to encourage uptake and use across transport models to 2050, with a prioritisation for the use of low carbon fuels. A long-term strategy on the use of low-carbon fuels to be published by the DFT in 2022.

NatWest Group continues to support customers in the automotive manufacturing sector including signing up to the COP26 declaration on accelerating the transition to 100% zero emission cars and vans. Refer to section 3.4 for further details.



5.7

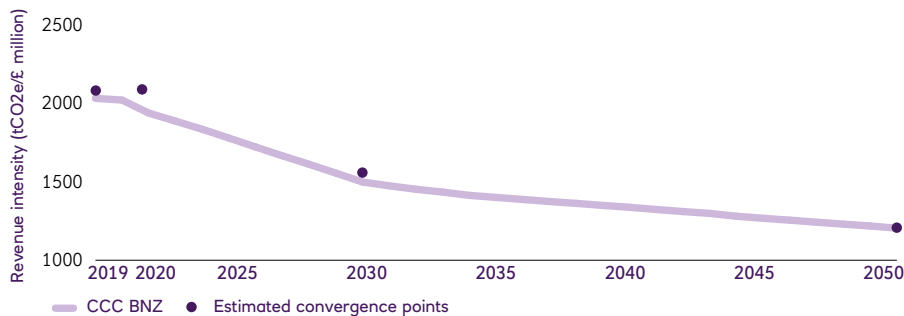
# Estimates of financed emissions continued

## Agriculture

Financed emissions were calculated for primary farming activities (including fishing) and LULUCF with exposures amounting to £4.3 billion at 31 December 2020 (£4.0 billion at 31 December 2019). As primary farming activities do not have a homogenous unit of output base (i.e. farmers sell different products), we have used revenue intensity by activity from the Exiobase 2011 database to estimate financed emissions.

Exiobase is a global, detailed multi-regional environmentally extended supply use table and input-output table. Exiobase was developed by harmonising and detailing supply use tables for a large number of countries, estimating emissions, and resource extractions by industry. We used Exiobase to calculate revenue emissions intensity for different categories of primary farming at the sub-sector level (such as cereal growing, dairy farming, etc). We then mapped the NatWest Group primary farming categories to the Exiobase sub sectors in order to use counterparty level revenue data in conjunction with the Exiobase revenue emissions intensities, to calculate emissions for primary farming. UK agriculture revenue to calculate 2020 emissions intensity is sourced from the Department for Environment, Rural and Food Affairs (DEFRA) publication Total Farming Income in the UK. Financed emissions attributable to NatWest Group is determined by the ratio of outstanding balance over the sum of total debt and equity of a counterparty.

### Emission intensity estimates



To estimate emissions intensity, we estimated revenue projections for the agriculture sector in the UK to 2050 based on the assumption that food demand grows in line with the World Bank's population forecasts for the UK. The estimated convergence points for the agriculture sector are based on the estimates for a change in growth rate of population to determine agricultural output through 2050. This assumption draws on data from the World Bank population estimates (published annually). We estimate a reduction of 27% required between 2019 and 2030 aligned to the CCC BNZ scenario.

**Behaviour changes and demand reduction** is estimated to be a primary driver of UK's agriculture emissions reduction by 2030, due to the assumption of a significant reduction in meat consumption and food waste. CCC BNZ scenario assumes a 20% diet shift away from all meat and dairy products by 2030 which is substituted by plant-based proteins, while also assuming that the reduction in meat consumption rises to 35% by 2050, with dairy consumption unchanged from 2030. This would result in decreasing emissions over time as customer habits shift. In early 2021, post the publication of the CCC's sixth carbon budget, the UK Government announced that it would look to meet the 78% reduction target through green technologies, while maintaining people's freedom of choice, including their diet. While the CCC assumes policies are implemented to encourage a shift away from meat and dairy, No large-scale UK programmes or policies are currently in place to encourage or support the CCC assumption.

**Agricultural machinery upgrades** have the potential to significantly influence emissions reductions in the agriculture sector. Deep decarbonisation in the agricultural sectors requires shifting from current agricultural production methods towards alternatives that reduce carbon and increase sequestration. While the CCC has suggested setting out a clear path to incentivise the take-up of zero or near-zero emission options for agricultural machinery and to develop options where these are currently not available, the UK Government is at an early stage of policy making.

**Adoption of low-carbon farming practices** is a potential driver of emissions reductions by 2030. This includes improvement in productivity by measures such as moving horticulture indoors to reduce inputs for the same quantity of outputs of fruit, vegetable and salad crops, improving agricultural productivity from 8.2 tonnes/ha today to 11 tonnes/ha by 2050 (wheat, with equivalent increases for other crops) and increasing stocking rate, being the number of animals grazing on a given amount of land for a specified time by 5-10% by redistributing grazing livestock. Policy support for this is in early stages: new green payments will be trialled with 5,000 farmers before a full launch in 2024, and from 2028 onwards, government funds will be used to pay farmers to restore wild habitats, create new woodlands, boost soils, and cut pesticide use.

### Land use, Land use change and forestry

The agriculture sector has the potential for reduction in emissions and mitigation can be achieved through activities in the LULUCF sector that increase the removal of greenhouse gases from the atmosphere or decrease emissions by halting the loss of carbon stocks.

**Restoring peatland** is expected to be a driver of sector emissions reductions by 2030, as peatland can continuously accumulate carbon under water-logged conditions. Peat restoration has been focused on the uplands to date, and The Nature for Climate Peatland Grant Scheme, updated in January 2021, will support the UK Government's target for restoring 35,000 hectares of peatland in England by 2025.

**Increased afforestation**, as well as integrating trees on farmland and expanding hedges should help to deliver these emissions reductions by 2030. Current rates of UK afforestation of over 13,000 hectares/year in 2018-2020, and The Nature for Climate Fund, published in April 2021, will be the main source (£500 million) of public funding to meet England's afforestation target.

During 2021, we have analysed exposures to LULUCF related activities and will continue to work with agriculture customers to support LULUCF activities further. Our work with the Sustainable Food Trust on the Global Farm Metric will support this by providing detailed farm information so we can work with customers and support their transition.



5.7

# Estimates of financed emissions continued

## Land transport

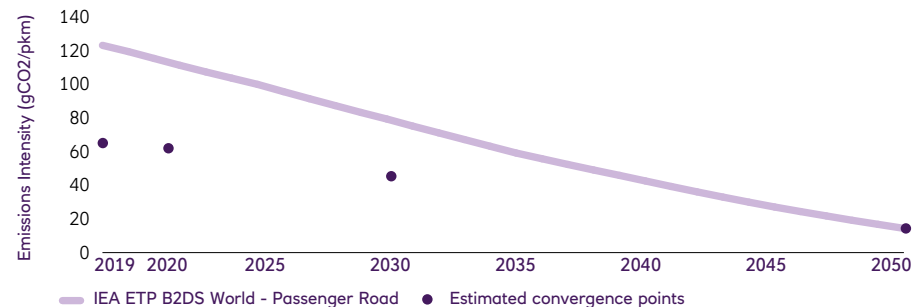
Financed emissions are calculated for lending in the passenger land and freight transport sector with exposures amounting to £4.3 billion at 31 December 2020 (£3.8 billion at 31 December 2019). This comprises all passenger transport made by light-duty and non light-duty vehicles (passenger road), rail and freight including coach services and companies renting automobiles.

## Emission intensity estimates

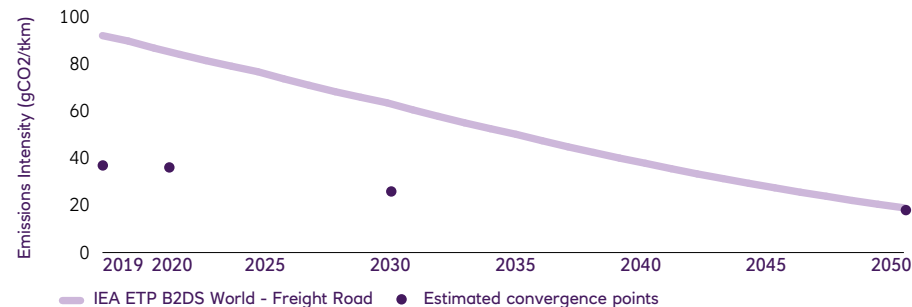
Separate scenarios have been used for sub-sectors within the land transport sector, to reflect different metrics and underlying variables. Key assumptions for underlying scenarios include:

- **Expected decrease in passenger travel by 2060:** the distance travelled by cars (km) reduces by 25-27% relative to a business-as-usual scenario as a result of measures that aim to decrease passenger transport use, and high electrification of passenger travel (in which 90% of cars are plug-in electric by 2060). Policy and technology movement in this direction is rapidly reducing the total cost of ownership of electric vehicles, but it is the rollout of sufficient electric vehicle charging infrastructure which will be the key challenge this decade.
- Additionally, **short-term reductions in emissions occur** due to energy efficiency and systemic improvements to road freight (by 2060, systemic improvement decreases vehicle km driven by truck freight by 16-26% compared to a business-as-usual scenario), and long-term emissions reductions occur due to use of alternative energy carriers (by 2060, 22% of the final energy from road freight is modelled to come via low-carbon fuels, with electrification and hydrogen seen to be the key options). The Department for Transport’s 2021 Transport Decarbonisation Plan details a planned £12 billion of investment in local transport systems. £2 billion of this investment is directed to increasing cycling and walking, and £3 billion will be used to increase bus passenger numbers by creating integrated bus networks and bus lanes.
- With regards to rail transport, **there is an expected increase in energy demand** as rail’s share of total transport energy demand quadruples by 2060, with a shift from aviation to high-speed rail. The significant electrification of rail (becoming the first transport sector to undergo full decarbonisation) and negative well-to-wake emissions will be largely due to a dependency on low carbon energy carriers such as bioenergy with carbon capture and storage for electric trains.
- **Increasing demand for rail, and the electrification of the rail network are policy objectives of the Government** with potential to affect emissions reductions in the land transport sector. The UK Government announced that it had committed £235 million via the Strategic Freight Network between 2014 to 2019 to grow rail freight. Building on this, the UK Government is investing £20 million on grant schemes that support increasing freight by rail and water. The 2021 Transport Decarbonisation Report, includes plans to increase investment in high-speed rail and extra capacity on the rail network for passengers and freight to encourage a modal shift from road and air to rail (HS2 Phase One and 2a, will create 170 miles of new electrified track between London, Birmingham and Crewe by the early 2030s). The Department for Transport has set out its ambition to end diesel trains on UK railways by 2040 and to deliver a net-zero rail network by 2050, primarily through increased investment in rail electrification and the potential deployment of battery and hydrogen-powered trains. However, absent of a clear Government plan or pathway and legislation for phasing out diesel trains and delivering a net-zero rail network, the scenario assumptions may not be met.

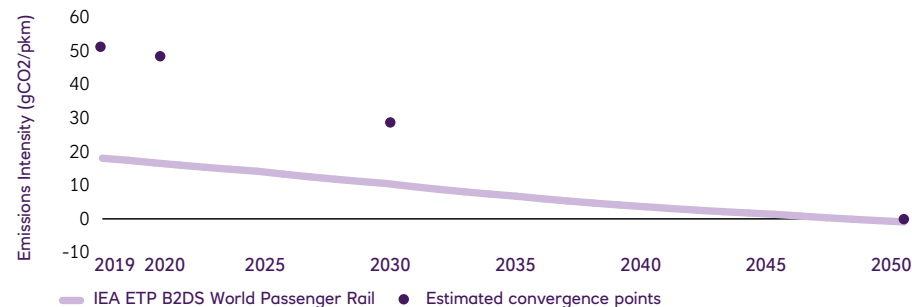
Passenger Road



Freight Road



Passenger Rail





5.7

# Estimates of financed emissions continued

## Electricity generation

Aligned with the SBTi definition of power generation, we have analysed customers engaged in power and heat generation as their primary business for the estimation of financed emissions and emission intensities. The following approach was used to estimate financed emissions:

- **Direct emissions:** Where available, we have used published emissions for customers.
- **Construction projects:** Projects under construction were assigned nil emissions as these are not currently generating electricity and hence result in zero direct emissions.
- **Capacity estimation:** Where available, production capacity data was used to estimate electricity production and related emissions based on the average performance of the technology of the power plant. This was done as follows:
  - We used counterparty level production capacity data to estimate production, based on average load factors from BEIS (percentage of time a plant runs through the year, based on supply/demand dynamics caused by dispatch costs and wholesale power prices)
  - We then multiplied the resulting production with UK-level average emissions factors from BEIS (emissions per MWh of electricity generated by a particular technology such as natural gas).
- **Identified renewables:** Projects that generate electricity from renewable sources generate no Scope 1 emissions.
- **Revenue intensity:** Where emissions and production data are not available, we use revenue emission intensities based on UK statistics, PCAF database and revenue production intensity. Specifically, we multiply counterparty-level revenue by average revenue intensity factors for power generation (emission per pound of revenue). This assumes that all counterparties in the electricity generation sector have similar cost/revenue structures and that the sector operates essentially as a free market, absent of monopoly rents. Average UK level statistics were used for calculating Scope 1 revenue intensity estimates while PCAF revenue intensity estimates were used for calculating Scope 2 emissions.

## Emissions intensity

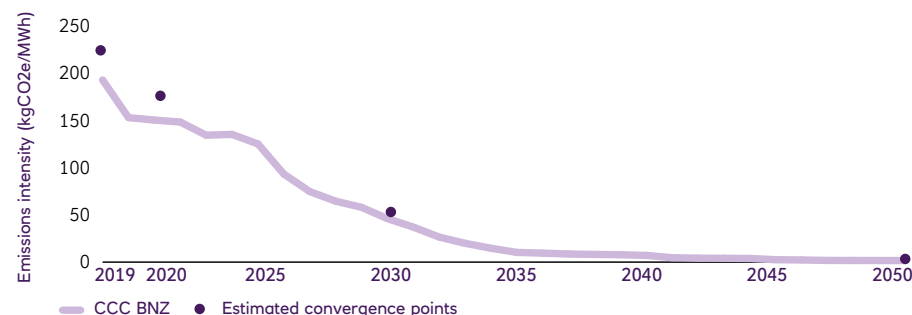
For the electricity generation sector, physical emissions intensity is measured in units of kilogram of CO<sub>2</sub> equivalent per megawatt hour (kgCO<sub>2</sub>e/MWh). Emissions intensity in 2020 was 258.5 kgCO<sub>2</sub>e/MWh compared with 223.2 kgCO<sub>2</sub>e/MWh in 2019, primarily due to an increase in exposures. To estimate the reduction in emissions intensity required by 2030, we used the CCC BNZ scenario which requires a 76% reduction in emissions intensity relative to 2019 baseline.

CCC estimates assume a decrease in carbon intensity of electricity generation in a phased manner with:

- Focus during 2020-2030 on **phase out of coal-based electricity** generation and deployment of low-cost renewables at scale;
- Focus during 2030-2040 on **displacement of unabated gas by 2035** with low carbon alternatives e.g. renewables; and,
- **Operating a near-zero electricity system during the 2040s.**

These rely on a mix of assumed policy incentives and technological and market development to facilitate

high penetration of renewable energy on the power grid, including market mechanisms to ensure a stable electric grid with sufficient dispatchable generation to enable the power grid to continue to supply electricity at the correct voltage and frequency even when the wind stops blowing and the sun is covered by cloud. Also, this relies on the development of a flexible system to manage renewable energy demand and supply e.g., through storage of energy.



Decreasing carbon intensity of power generation is a policy priority with a large potential for impact on overall emissions. Three notable policies include the UK Emissions Trading System (ETS), Carbon Price Support (CPS), and the Contracts for Differences (CfDs) programmes.

NatWest Group CSFI criteria includes activities that support renewable electricity generation, and we will continue to work with customers to support these activities.





5.7

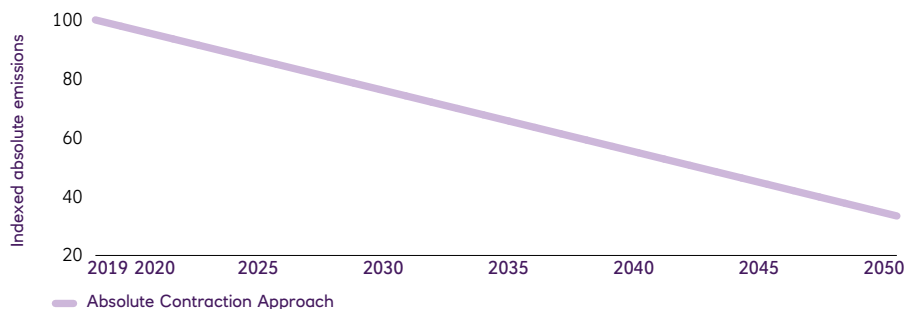
# Estimates of financed emissions continued

## Aviation and shipping

### Financed emissions

Financed emissions are calculated primarily for companies focused on the operation and leasing of transport equipment, with manufacturing and services activities being excluded.

### Emission intensity estimates

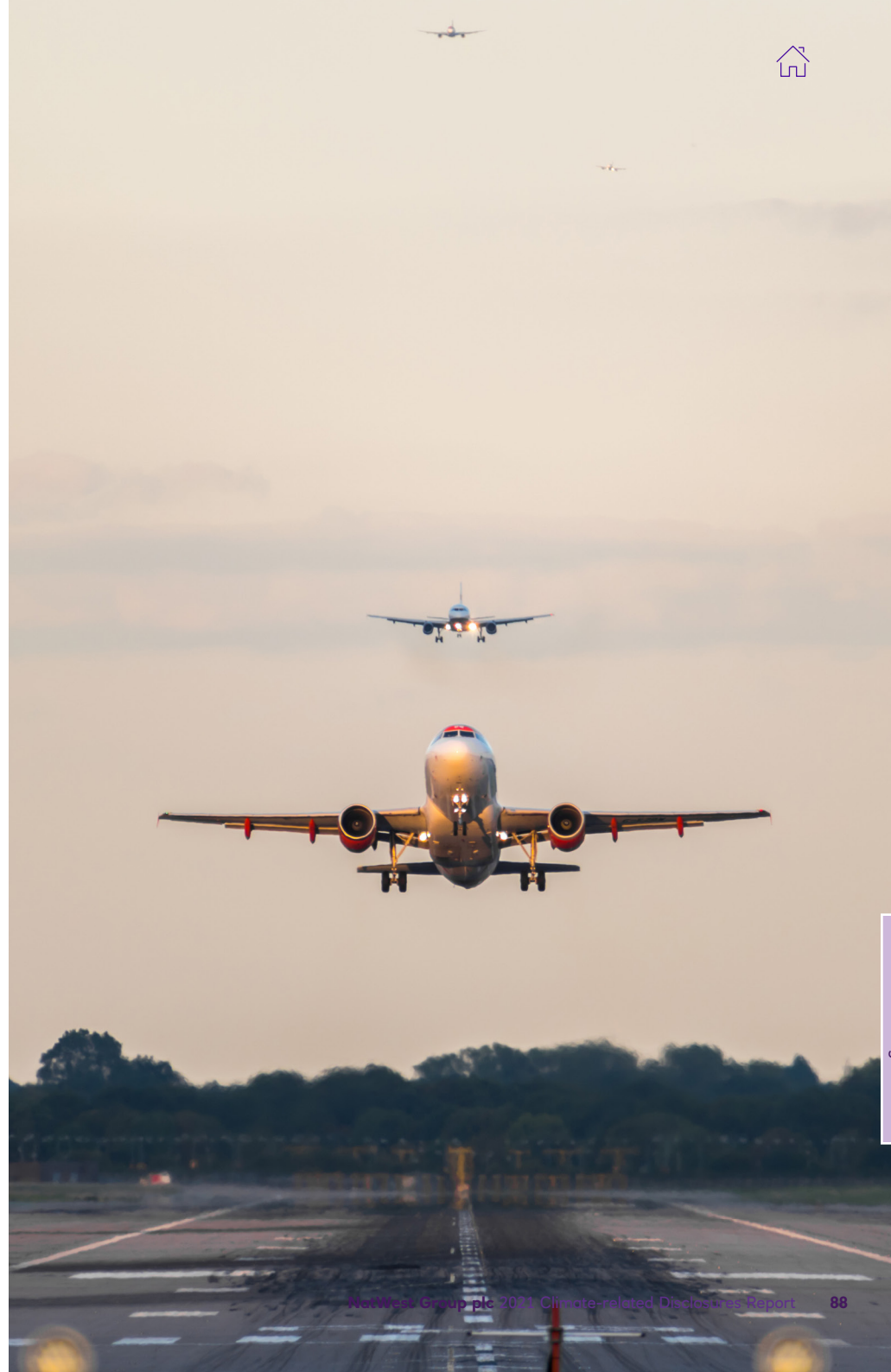


We estimate a total reduction of 24% required by 2030 aligned to the IEA’s B2DS World scenario, for both Aviation and Shipping sectors. SBTi guidance allows for the use of Absolute Contraction Approach for Aviation and Shipping sectors to estimate reduction in financed emissions required by 2030.

The UK Government released within the ‘Ten Point Plan’, published in November 2020, included the following initiatives targeting Aviation and Shipping:

- **The Jet Zero Council (JZC)** is a partnership between industry and government with the aim of delivering zero emission transatlantic flight. So far, funding programmes reached £3 million for zero emission flight aviation projects and £15 million to support the production of Sustainable Aviation Fuels (SAF).
- **Under the Green Ships Initiative**, the UK Government has committed to a £20 million investment in the Clean Maritime Demonstration Programme, and a hydrogen refuelling port, which will be launched in Teesside, and is conducting hydrogen ferry trials in Orkney.

A comprehensive government plan or pathway for decarbonising the aviation industry is currently not in place.





5.7

# Estimates of financed emissions continued

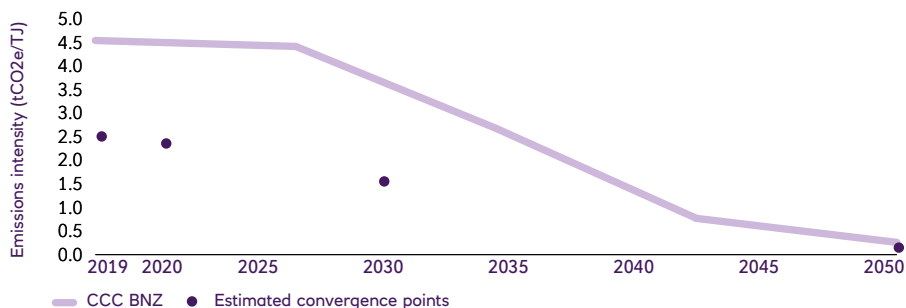
## Oil and gas

During 2021 we have extended the scope of our analysis for oil and gas sector from oil and gas extraction only to now include most of the full sector including upstream (such as manufacture of gas), midstream (such as oil and gas transport via pipeline) and downstream (such as the retail of fuel in specialised stores). We have also updated the 2019 financed emissions estimates to reflect this enhancement in scope. In addition to Scope 1 and 2 emissions, we have also calculated Scope 3 emission estimates for this sector for sub sector codes prescribed by the PCAF standard across upstream, midstream and downstream as these have a high climate impact.

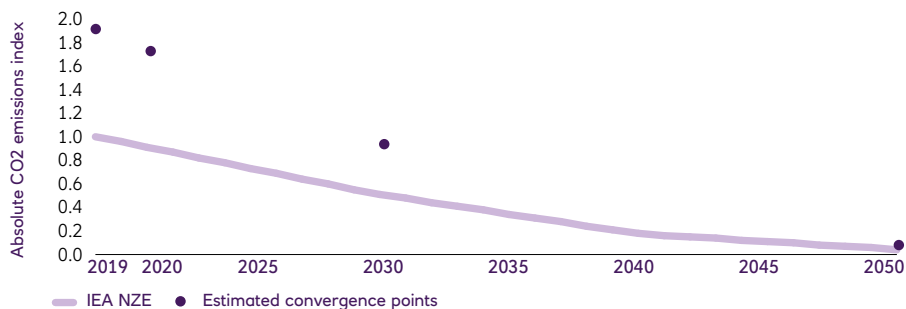
## Emissions intensity

Emissions intensity was estimated by considering the location of main areas of operation for counterparties across the Norwegian North Sea and three sub-regions of the North Sea. For each of these regions, the physical emissions intensity for 2019 and 2020 was derived from publications of the Norwegian Petroleum Directorate and of the UK Oil & Gas Authority. The estimated emission intensity for NatWest Group was calculated as the weighted average of the emission intensity of each counterparty, based on its location of operation.

### Scope 1-2



### Scope 3



We have used the CCC BNZ scenario to estimate emissions intensity reductions required by 2030 for Scope 1 and 2 emissions and IEA NZE scenario for Scope 3 emissions. We have used different pathways for Scope 1 and 2, and Scope 3 emissions as the underlying drivers for emissions generation, as well as for their reduction, are likely to be different. Scope 1 and 2 emissions arise from processes related to the supply of fuel e.g. extraction, production and related activities of oil and gas companies. Scope 3 emissions result from the downstream combustion of oil and gas. As a result, while Scope 1 and Scope 2 emissions may be reduced by adoption of more efficient production methodologies, Scope 3 emission reductions are likely to require customer behaviour changes to alternate fuels. Key assumptions underlying the scenario for Scope 1 and 2 include:

**Fuel switching away from petroleum across the economy** is assumed to lead to reduced emissions from refining and production processes in general and represents a major potential driver of decarbonisation in the oil and gas industry, especially in surface transport. The Industrial Decarbonisation Strategy (IDS), released March 2021, sets an ambition that at least 20 TWh of fuel use will switch to low-carbon energy by 2030. The UK Industrial Fuel Switching will support innovation in the development of pre-commercial fuel switch and fuel switch enabling technology for the industrial sector. Additionally, the UK Government has released its Hydrogen Strategy in August 2021, which aims to build a hydrogen economy worth £900m by 2030 and announced that it intends to publish a new Biomass Strategy in 2022.

The 2035 Delivery plan, released in July 2021, proposes to end petrol and diesel car sales by 2030 and large heavy-duty vehicles by 2040. The Future Homes Standard updated in January 2021 will ban fossil-fuel heating in new-build private homes from 2025, and the announced subsidy for heat pumps in the context of the Domestic Renewable Heat Incentive will incentivise low-carbon solutions for individuals. The CCC notes that while the plan introduces credible detailed policy, the level of funding allocated is lower than levels anticipated in the Sixth Carbon Budget.

The CCC assumes that the **electrification of compressors and generators on oil and gas platforms**, as well as electrification at oil and gas processing terminals should yield a significant reduction by 2030. The North Sea Transition Deal (NSTD), published in March 2021, commits to reducing the greenhouse gas footprint of North Sea oil and gas production and processing by 50% by 2030 relative to 2018 levels. In parallel, the UK Emissions Trading System (ETS) limits total emissions in industry (including extraction and refining of oil), power and aviation through a cap and incentivises changes to lower-emissions production routes. The UK Government has also approved the Iron Mains Risk Reduction Programme, which aims to reduce the risk of methane emissions in gas pipes, while the 2021 Methane Action Plan and flaring reduction plans are based on voluntary commitments.

During 2021, we have completed credible transition plan assessments for oil and gas major customers, refer to section 3.5.2 for further details.

## Cautionary note about climate-related data and methodology challenges

### Climate metrics challenges

Climate metrics, particularly targets, projections, forecasts and other forward-looking climate metrics, used in this document merit special caution about their usefulness in decision-making as they are more uncertain than, say, historical financial information.

Climate metrics may be:

- estimates of historical emissions, such as financed emissions, absolute emissions, and various emissions intensity metrics or estimates of historical climate change, temperatures and other information; or
- forward-looking climate metrics, such as targets, climate scenarios and emissions intensity pathways, and estimated climate projections and forecasts. See ‘Climate-related and other forward-looking statements and metric’ below.

The evolution of climate change and its impacts is highly uncertain. Accordingly, both historical and forward-looking climate metrics are likely to be more inherently uncertain and, therefore, less decision-useful than metrics based on historical financial statements.

**There are many significant uncertainties, assumptions and judgements underlying climate metrics that limit the extent to which climate metrics are useful for decision-making. The most important of these are:**

#### 1) Risks inherent in climate-related data

Meaningful reporting of climate-related risks and opportunities and their potential impacts and related metrics depend on access to accurate, verifiable, reliable, consistent and comparable climate-related data. The financial sector is grappling with risks related to data availability and quality. The most important of these risks are:

- Climate-related data may not be generally available from counterparties or customers or, if available, is generally variable in terms of quality and, therefore, may not be accurate, verifiable, reliable, consistent, or comparable.
- In the absence of accurate, verifiable, reliable, consistent, and comparable climate-related data financial institutions necessarily rely on aggregated information based on high-level sector data developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions.
- Data is less readily available for some asset types and there may also be data gaps, particularly for private companies, that are filled using “proxy” or other data, such as sectoral averages, again developed in different ways.
- There is no single, global, cross-sector data provider that adequately and consistently covers the needed scope for data to analyse emissions and assess physical and transactional risks across operations and portfolios.
- Voluntary and mandated climate frameworks vary in their data quality measurement, while clients vary widely in their collection and disclosure of asset-level climate data.

- While regulators and standard setters begin to mandate additional disclosure of verified climate-related data by companies across sectors, there are potential gaps between needed and available data.
- Poor quality and availability of high-quality historical and current emissions, or sub-sector data is currently a significant obstacle to the calculation of carbon-related metrics. The absence of widely available, detailed, accurate, verifiable, reliable, consistent and comparable and other high-quality climate and sub-sector related information makes it challenging to accurately disclose or estimate metrics used to assess climate-related risks and opportunities.
- The availability of climate, industrial classification, energy use and efficiency data – including information used as a proxy for that data (e.g., EPC rating) – depends on a variety of public, private and civic sector sources. Historically, climate data was largely environmental and weather data was produced by government agencies. However, the challenge is finding the relevant sources if they exist, and then validating, cleaning, and standardizing the data in an accessible form or format.

Climate metrics and data, the models, scenarios used to create them and the measurement technologies, analytical methodologies and services that support them remain in an incipient stage. Accordingly, the quality and interoperability of these models, technologies and methodologies, is also at a relative early stage. Significant gaps in sectors, sub-sectors and across asset classes are impeding not only climate risk management, but also the development of mitigation and adaptation strategies, as well as aspects of operations and credit risk and investment analysis that depend on data-informed processes. For more information on data limitations of scenario modelling, please refer to ‘Limitations of climate-related risk modelling’ (section 3.7.4 – ‘Scenario analysis’).

#### 2) Risks inherent in the lack of standardisation, transparency and comparability

- Many voluntary disclosure frameworks and methodologies for calculating climate metrics are new and evolving, leading to multiple metrics estimates that are not directly comparable.
- These differences are compounded by a lack of international coordination on data and methodology standards.
- Existing estimation methods present significant challenges and the development of a more market accepted consistent way of measuring and reporting Scope 3 emissions across sectors where they are material and relevant is needed.
- Among other factors, emissions intensity, demand and supply elasticity, and the associated pass-through of production prices to consumers impact vulnerability in the short-term, while transition plans, evolving consumer preferences and technology innovation impact vulnerability in the longer-term.



## Cautionary note about climate-related data and methodology challenges continued

Where methodologies are publicly described, differences across data providers can still make resulting disclosures difficult to compare for investors and others evaluating climate exposure across their holdings.

### 3) Risks inherent in the reliance on assumptions and future uncertainty

- Climate metrics are complex and require many methodological choices, judgements and assumptions.
- Temperature scenarios generally include a set of assumptions that incorporate existing or planned global or regional policies, a business-as-usual sociodemographic projection, and projections for technological progress (including negative emissions and sequestration technologies), none of which may happen as contemplated.
- Some assumptions attempt to compensate for existing data gaps, such as past emission trends or comparable and reliable company specific targets.
- Other assumptions rely on given climate scenarios and transition pathway models, the details of which can vary widely despite representing similar outcomes.
- Uncertainty around future climate-related policy in particular can contribute to greater variation in transition pathway models.
- Many climate metrics and data are based on underlying assumptions made about climate changes, policies, technologies and other matters that are uncertain or not yet known. Any material change in these variables may cause the assumptions, and therefore, the climate metrics and data based on those assumptions, to be incorrect.
- Until other challenges are addressed, there may be a large resource burden associated with calculating and disclosing forward-looking metrics, which often require the assistance of one or more external data and methodology providers.
- In addition, design issues specific to financed emissions raise challenges, particularly around allocating emissions to the wide range of financial activities. Financed emissions from owning 1 percent of a company might include 1 percent of that company's emissions; a portfolio can rapidly double count if aggregate financed emissions include each underlying company's own Scope 3 upstream and downstream emissions. The calculation becomes significantly more complex with other activities, such as when a financial institution serves as a counterparty or is one of multiple underwriters of a financing.
- The preparation of this report requires the application of a number of key judgements and also requires assumptions and estimates to be made. The key areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to this report, include financed carbon emissions and portfolio alignment and measurement of climate-related risk and operational emissions. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect. These judgements and resulting data presented in this report are not a substitute for judgements and analysis made independently by the reader.

### 4) Risk inherent in methodologies for estimating and calculating GHG emissions.

- The methodologies for estimating and calculating GHG emissions or emissions intensities and other climate-related metrics vary widely in their approaches.
- Some methodologies use company-specific historical emissions data while others result in estimation of emissions based on sectoral or geographical data or averages. Of those that incorporate emissions targets, there are different criteria for the types of targets that can and cannot be used.
- Methodologies vary in their use of Scope 1, Scope 2, and/or Scope 3 GHG emissions. Some use only Scope 1 data, while others use Scope 1 and 2, and yet others take Scope 1, 2, and 3 GHG emissions into account.
- Certain methodologies take cumulative historical GHG emissions into account while others incorporate point-in-time assessments of emissions intensity.
- Methodologies may incorporate different climate-related scenarios or emissions pathways, or even utilise internal proprietary future emissions pathways.
- Certain methodologies may be better suited to assessing certain asset classes and may vary in whether some asset classes can be assessed at all.
- Variations in methodologies may also lead to under – or overestimates of implied temperature rise, and consequently an exaggerated indication of climate-related risk.

Moreover, some available methodologies may only include a limited number of technologies and indicators, while other important levers/indicators that are needed to understand transition risks and opportunities in certain sectors may not be included.

### 5) Limitations of climate scenario analysis and the models that analyse them

- The practice of modelling the impact of climate-related risks on the financial sector is improving rapidly but remains in its infancy. As a result, there are currently a number of limitations with respect to data and analysis techniques, which should be borne in mind (The Bank of England's climate-related financial disclosure 2021).
- Scenarios are not forecasts (they do not mean to predict future outcomes); rather they are projections of alternative plausible futures that are designed to build an understanding of the nature and size of changes that may occur in future. They do not reflect all possible future pathways.
- Predicting climate change and quantifying its impacts on the economy is inherently complex – in how the impacts of climate change will impact asset values, how companies will react to regulatory and market pressures, as well as how NatWest Group's customers will react and adapt to these impacts.
- Like any modelling, the further out the projection, the greater the uncertainties. When interpreting model outputs, it may be that the direction of change is more useful for decision-making than point estimates within one scenario's results.





## Cautionary note about climate-related data and methodology challenges continued

- Climate scenarios and the models that analyse them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty.
- Climate scenarios cannot fully capture all of the potential effects of climate, policy and technology driven outcomes. For example, the Intergovernmental Panel on Climate Change (IPCC) projects that substantial deployment of negative emissions technologies, such as biomass energy with carbon capture and storage (CCS), would be required to achieve a 1.5°C outcome, and many analysts draw similar conclusions about reaching 2°C. The cost and availability of such technologies has a significant effect on the estimated price of carbon that would be required to deploy them. Other things being equal, models that assume the availability of low-cost CCS or other as-yet-nascent technology will project more modest carbon prices to achieve stringent climate change mitigation goals. Models that assume limited availability of these technologies at low cost will project higher costs to achieve the same climate goals.
- Scientific understanding of climate change continues to develop. This may enable a more granular and precise understanding of some kinds of climate-related risks in future.
- Finally, models cannot fully capture the range of societal changes that could result from climate change. These could include changes in dietary preferences, migration patterns, and political preferences. As climate continues to change, decision-makers will respond in ways that can both create and alleviate risks. The costs of models do not fully capture the possibility of low-probability but high-impact risks and opportunities. Market actor and policymaker responses are complex and should be considered qualitatively along with a quantitative scenario analysis. Some of these limitations are inherent to many models but are in this case further exacerbated by the often-multi-decade time horizon and the complexity and interdependencies of the effects modelled, from ice sheet melting to agricultural yields and migration: To mitigate the limitations of scenarios and modelling, practitioners should: analyse multiple scenarios with various underlying assumptions and parameters.

Over reliance by regulators or financial institutions on a limited number of the same prescribed models or scenarios (e.g., the NGFS scenarios) may amplify systemic climate-related risks.

### Caution about certain information in this document

The preparation of certain information in this document requires the application of a number of key judgments, assumptions and estimates, including with respect to the classification of Climate and Sustainable Funding and Financing activities. The reported measures in this document reflect good faith estimates, assumptions and judgments at the given point in time. There is a risk that these judgments, estimates or assumptions may subsequently prove to be incorrect.

ESG reporting in our industry is not yet subject to the same globally recognised or accepted reporting or accounting principles and rules as traditional financial reporting. Accordingly, there is a lack of commonly accepted reporting practices for NatWest Group to follow or align to and ESG measures between organisations in our industry may be non-comparable.

In addition, the maturity of underlying data, systems and controls that support non-financial reporting is generally considerably less sophisticated than the systems and internal controls for financial reporting and it also includes manual processes. This may result in non-comparable information between organisations and between reporting periods within organisations as methodologies develop. The further development of accounting and/or reporting standards could materially impact the performance metrics, data points and targets contained in this document and the reader may therefore not be able to compare performance metrics, data points or targets from one reporting period to another, on a direct like-for-like basis. NatWest Group plans to continue to review available data sources and enhance its methodology and processes to improve the robustness of its ESG reporting over time aligned with recognised industry developments. The further development of accounting and/or reporting standards could materially impact the performance metrics, data points and targets contained in this document and the reader may therefore not be able to compare performance metrics, data points or targets from one reporting period to another, on a direct like-for-like basis.

Further to the above, Climate and Sustainable Funding and Financing activities and their classification and reporting are still not subject to a single recognised or accepted, consistent and comparable set of definitions or standards in the UK or globally either. There is little certainty that such activities and or reporting of those activities will meet any present or future expectations or requirements for describing or classifying funding and financing activities as “green” or “sustainable” or having similar labels (including existing or proposed standards, such as the EU Taxonomy, EU SFDR and EU GBS). We expect policies, regulatory requirements, standards, and definitions to be developed and evolve over time.

To support transparency about our process for reporting this data and measures, NatWest Group developed a Basis of Reporting document for 2021, which details our approach, scope, and controls for selected ESG measures. It should be read together with this document and is available at [natwestgroup.com](https://natwestgroup.com).

## Climate-related and other forward-looking statements and metrics

Certain sections in this document contains climate-related and other forward-looking statements and metrics, such as targets (including Climate and Sustainable Funding and Financing targets), climate scenarios and emissions intensity pathways, estimated climate projections and forecasts. Words or phrases such as ‘anticipate’, ‘effort’, ‘estimate’, ‘believe’, ‘budget’, ‘continue’, ‘could’, ‘expect’, ‘forecast’, ‘goal’, ‘guidance’, ‘intend’, ‘may’, ‘objective’, ‘outlook’, ‘plan’, ‘potential’, ‘predict’, ‘projection’, ‘seek’, ‘should’, ‘target’, ‘will’, ‘would’ or similar expressions that convey the prospective nature of events or outcomes generally indicate forward-looking statements.

The many significant uncertainties, assumptions, judgements, opinions, estimates, forecasts, statements made of future expectations and certain non-historical data underlying forward-looking climate-related metrics (such as carbon and other emissions metrics) and metrics to assess climate-related risk and opportunity outside of carbon exposure may limit the extent to which these climate-related metrics are used to better understand risk and evaluate progress towards established strategies, targets, objectives and commitments and could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

The most important of these uncertainties and factors, including, without limitations, are:

- lack of reliable emissions and other important data;
- quality of historical (emission) data;
- lack of common definitions and standards for climate-related data;
- lack of transparency and comparability of climate-related forward-looking methodologies;
- variation in approaches and outcomes – variations in methodologies may lead to under or overestimates, and consequently present exaggerated indication of climate-related risk;
- limitations of climate scenario analysis and the models that analyse them;
- reliance on assumptions and future uncertainty (calculations of forward-looking metrics are complex and require many methodological choices and assumptions);
- uncertainty around future climate-related policy; and
- complexity of calculation may require the assistance of one or more external data and methodology provider.

Further to it, the statements in this climate-related disclosures report are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group’s strategy or operations, which may result in NatWest Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. By their nature, certain of these disclosures are only estimates and, as a result, actual future results could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements.

This forward-looking statement should be read together with:

- Section 5.8 (Cautionary note about climate-related data and methodology challenges) of this report;
- Section 3.7.4 (Modelling limitations, capability enhancements and future developments) of this report;
- the ‘Forward looking statements’ of the NatWest Group 2021 Annual Report and Accounts; and
- ‘Risk Factors’ particularly the section entitled ‘Climate and sustainability-related risks’ in the NatWest Group 2021 Annual Report and Accounts that describes several particular uncertainties, climate and sustainability-related risks to which NatWest Group is exposed.

The most important of these are discussed here:

- NatWest Group and its customers face significant climate-related risks, including in transitioning to a net-zero economy, which may adversely impact NatWest Group.
- NatWest Group’s Purpose-led Strategy includes climate change as one of its three areas of focus. This is likely to require material changes to the business and operating model of NatWest Group which entails significant execution risk.
- Any failure by NatWest Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NatWest Group’s ability to manage climate-related risks.
- There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.
- A failure to adapt NatWest Group’s business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NatWest Group, its reputation, business, results of operations and outlook.
- Any reduction in the ESG ratings of NatWest Group could have a negative impact on NatWest Group’s reputation and on investors’ risk appetite and customers’ willingness to deal with NatWest Group.
- Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NatWest Group’s business and expose NatWest Group to increased costs of compliance, regulatory sanction and reputational damage.

NatWest Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.

### No duty to update

This document and any information contained or otherwise accessible through natwestgroup.com are historical and only speak as of the date we make them. The measures and forward – looking statements in this document reflect best estimates, assumptions and judgements at the given point in time. There is a risk that these judgements, estimates or assumptions may subsequently prove to be incorrect. Unless legally required, we expressly disclaim any obligation or undertaking to update or revise any measures or forward-looking statements in this document, whether to reflect any change in our expectations regarding those forward-looking statements, any change in events, conditions or circumstances on which any such statement is based, or otherwise.

### No offer of securities

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicit of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.



# 6

# Glossary





Item	Description
Climate and Sustainable Finance Inclusion (CSFI) criteria	Criteria used to determine the assets, activities and companies that are eligible to be counted towards the £100 billion Climate and Sustainable Funding and Financing target.
Climate and Sustainable Funding and Financing	Funding and financing for climate and sustainable finance to support transition towards a net-zero, climate resilient and sustainable economy.
Climate Biennial Exploratory Scenario exercise (CBES)	The CBES is a novel Bank of England exercise to explore the resilience of the UK financial system to the physical and transition risks from climate change. The exercise will test the resilience of the current business models of the largest banks, insurers and the financial system to climate-related risks and therefore the scale of adjustment that will need to be undertaken in coming decades for the system to remain resilient. The CBES focuses on sizing risks rather than testing firms' capital adequacy or setting capital requirements.
Climate Change Vulnerability Index (CCVI)	Evaluates the relative vulnerability of a country's economic, fiscal, external and political trends to climate-related physical and transition risks. It combines exposure to climate extremes and change with the current sensitivity to those climate stressors and the capacity of the country to adapt to the impacts of climate change.
Climate Group Initiatives (RE100, EV100, EP100)	Collection of initiatives specified by the Climate Group designed to achieve the goal to make the world net-zero carbon emissions by 2050. These initiatives focus on Renewable Energy (RE), Electric Vehicles (EV) and Energy Productivity (EP).
Climate Positive	NatWest Group defines Climate Positive as reducing location-based emissions from our direct operations 25% from our 2019 baseline and using carbon credits to neutralise our baseline market-based emissions of 120,000 tCO <sub>2</sub> e. In 2021, we used internationally recognised carbon credits which add environmental, social and community benefits.
Climate risk	NatWest Group has defined climate risk as the risk of financial loss or adverse non-financial impacts associated with climate change and the political, economic and environmental responses to it.
Climate-related risks	Refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g. cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g. sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses and reputational considerations.
Climate-related opportunities	Refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilisation of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market and industry in which an organisation operates.
Commercial real estate	The commercial real estate portfolio refers to customers covered by our commercial real estate sector and includes both commercial and residential properties.
COP26	The COP26 refers to the 26th UN Climate Change Conference of the Parties, which the UK hosted in Glasgow during November 2021. NatWest Group was a principal partner for COP26. The summit brought parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change.
Direct own operations	Emissions arising from our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) activities. It therefore excludes upstream and downstream emissions from our value chain.
Energy Performance Certificate (EPC)	Energy Performance Certificates (EPCs) are needed whenever a property is built, sold or rented in the UK. The report assesses and recommends specific ways in which the energy efficiency of a property could be improved. An EPC gives a property an energy efficiency rating from A (most efficient) to G (least efficient) and is valid for 10 years.
Enterprise-wide risk management framework (EWRMF)	The Enterprise-wide risk management framework (EWRMF) is the primary risk governance document within NatWest Group. It is approved by the NatWest Group Board and represents a synopsis of the overall risk management and governance arrangements in place. It sets out NatWest Group's approach to managing risk, applies to everyone in NatWest Group and ensures that processes are in place to facilitate risk management and decision-making across the organisation.
Environmental, social and ethical (ESE) risk framework	A risk framework comprising policies and processes to give us better insight into our customers' activities and address issues of concern to minimise risks to the bank and manage stakeholder expectations. Our ESE risk framework allows NatWest Group to assess and manage the ESE risks facing existing or potential customers to ensure NatWest Group only supports customers that are within NatWest Group's defined risk appetite.
Environmental, Social and Governance (ESG)	Refers to three central areas of sustainability performance (risk and return) we consider and report on. ESG or sustainability factors can impact our business as well as our stakeholders, the environment or wider society.
Financed emissions	Greenhouse gas emissions that occur as a result of financing, including lending and investment activity. These activities fall within Scope 3, category 15 of the GHG protocol. NatWest Group uses financed emissions as a key metric to estimate the climate impact of our financing activity on the real economy. Financing activity refers to the loans and investments (debt securities and equity shares) on NatWest Group's balance sheet.
Full-time employee (FTE) equivalent	The number of full-time employees and equivalents within the organisation calculated on a standard working week.





Item	Description
Greenhouse gas (GHG) emissions	GHGs are atmospheric gases that absorb and emit radiation within the thermal infrared range and that contribute to the greenhouse effect and global climate change. Many different GHGs are produced as a result of human activities. The seven gases mandated under the Kyoto Protocol and to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC) – carbon dioxide (CO <sub>2</sub> ), methane (CH <sub>4</sub> ), nitrous oxide (N <sub>2</sub> O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF <sub>6</sub> ), and nitrogen trifluoride (NF <sub>3</sub> ). NatWest Group calculates its own operational GHG emissions using GHG protocol guidance and an operational control approach. This includes Scope 1 emissions from fluorinated gas losses and fuel combustion in NatWest Group premises/vehicles, Scope 2 emissions from electricity, district heating and cooling and Scope 3 emissions from all upstream emissions including supply chain, business travel, UK and ROI waste, working from home and commuting.
Greenhouse Gas Protocol	Comprehensive global standardised frameworks to measure and manage GHG emissions from private and public sector operations, value chains and mitigation actions. The GHG Protocol supplies the world's most widely used GHG accounting standards.
Heightened climate-related risk sectors	The NatWest Group lending sectors and portfolios which have currently been identified as potentially most exposed to climate-related physical and transition risks.
Net-zero carbon	While there was previously no standard definition of net zero, NatWest Group has historically defined this as a state where no incremental greenhouse gases are added to the atmosphere, with remaining emissions output being balanced by the removal of carbon from the atmosphere. As part of COP26, the SBTi released the world's first net zero framework which encapsulates the full value chain of Scope 3 and deep decarbonisation targets. To support our Group commitments to the Net Zero Banking Alliance and SBTi, we are now aligning our definition of net zero with the framework. We have a target to halve our direct own operational carbon footprint by 2025 and set stretching targets for the wider operational value chain to halve by 2030, with minimum 90% decarbonisation by 2050 for all emissions.
Operational value chain	Emissions arising from our operational control approach of all Scope 3, excluding financed emissions.
Paris alignment	The 2015 Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris. This Agreement aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. NatWest Group intends to do what is necessary to achieve alignment with the 2015 Paris Agreement. This is referred to as Paris alignment.
Partnership for Carbon Accounting Financials (PCAF)	Global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas emissions associated with their loans and investments.
Prudential Regulatory Authority (PRA)	The Bank of England prudentially regulates and supervises financial services firms through the Prudential Regulation Authority.
Risk and Control Assessment (RCA)	Risk and Control Assessment is used to identify and measure operational and conduct risks faced by the bank in order to facilitate the effective management of risks within risk appetite.
Scope 1, 2 and 3 emissions	Scope 1 emissions from fluorinated gas losses and fuel combustion in NatWest Group premises/vehicles, Scope 2 emissions from electricity, district heating and cooling, Scope 3 emissions from all upstream emissions including supply chain, business travel, UK and ROI waste, working from home and commuting.
Streamlined Energy and Carbon Reporting (SECR)	Reporting of emissions sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.
The CDP (formally Carbon Disclosure Project)	Not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.
Thermal and lignite Coal	Coal that is almost exclusively used as a fuel for steam-electric power generation.
Transaction Acceptance Standards (TAS)	Sectorial lending standards that set out both mandatory metrics that must be adhered to as well as additional structuring guidance.
United Nations Environment Programme Finance Initiative (UNEP FI)	The UN Environment Programme Finance Initiative (UNEP FI) is a partnership between the UN Environment Programme and the global financial sector. Its mission is to identify, promote and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations. NatWest Group is a signatory to the UNEP FI Statement (1997).
Value chain	Refers to the upstream and downstream lifecycle of a product, process or service, including material sourcing, production, consumption and disposal/recycling.

